

**SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
DECEMBER 31 2009, AND 2008**

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REPORT OF REGISTERED INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of

Suspect Detection Systems Inc.:

We have audited the accompanying consolidated balance sheets of Suspect Detection Systems Inc. and subsidiary (a Delaware corporation) as of December 31, 2009, and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 audits included 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suspect Detection Systems Inc. and subsidiary as of December 31, 2009, and 2008, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has not established sufficient sources of revenue to cover its operating costs and expenses. As such, it has incurred an operating loss since inception. Further, as of December 31, 2009, and 2008, the cash resources of the Company were insufficient to meet its planned business objectives. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plan regarding these matters is also described in Note 2 to the consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, an error in the determination of the amount of goodwill, additional paid in capital and 1 and noncontrolling interest from the acquisition of an additional seven percent interest in the equity of Suspect Detection Systems, Ltd., an Israeli Corporation, resulting from an Exchange Agreement dated July 9, 2009, which amounted to \$291,690, was determined by management of the Company. Accordingly, the consolidated financial statements as of and for the period ended December 31, 2009, have been restated to correct the error.

Respectfully submitted,

/s/ Davis Accounting Group P.C.

Cedar City, Utah,
March 26, 2010, except for Note 3, for
which the date is December 30, 2010.

**SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (NOTE 3)
AS OF DECEMBER 31, 2009, AND 2008 (RESTATED) (NOTE 3)**

ASSETS

	<u>2009</u>	<u>2008</u>
	<u>(Restated)</u>	
Current Assets:		
Cash and cash equivalents	\$ 701,931	\$ 179,565
Restricted cash	15,827	-
Due from related party - SDS - Israel	-	28,000
Inventory	55,281	-
Prepaid expenses	<u>60,343</u>	<u>143,392</u>
Total current assets	<u>833,382</u>	<u>350,957</u>
Property and Equipment:		
Computer and other equipment	30,034	-
Less - Accumulated depreciation	<u>(17,534)</u>	<u>-</u>
Property and equipment, net	<u>12,500</u>	<u>-</u>
Other Assets:		
Deferred acquisition costs	-	1,135,000
Severance pay fund	45,563	-
Prepaid expenses, non-current	10,578	-
Goodwill	<u>1,033,964</u>	<u>-</u>
Total other assets	<u>1,090,105</u>	<u>1,135,000</u>
Total Assets	<u>\$ 1,935,987</u>	<u>\$ 1,485,957</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable - Trade	\$ 9,175	\$ 807
Accrued liabilities	161,161	20,802
Advances from customers	919,400	-
Deferred revenues	55,631	-
Due to Director and stockholder	<u>99,541</u>	<u>288</u>
Total current liabilities	<u>1,244,908</u>	<u>21,897</u>
Long-term Debt:		
Accrued severance pay	<u>84,315</u>	<u>-</u>
Total liabilities	<u>1,329,223</u>	<u>21,897</u>
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value \$0.0001 per share, 250,000,000 shares authorized; 71,822,893 and 72,689,668 shares issued and outstanding in 2009 and 2008, respectively	7,182	7,269
Additional paid-in capital	2,239,248	1,797,302
Common stock subscribed	25,000	-
Accumulated (deficit)	<u>(1,431,535)</u>	<u>(340,511)</u>
Total stockholders' equity	839,895	1,464,060

Less - Noncontrolling interest	<u>(233,131)</u>	<u>-</u>
Total stockholders' equity, Net	<u>606,764</u>	<u>1,464,060</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,935,987</u>	<u>\$1,485,957</u>

The accompanying notes to consolidated financial statements are
an integral part of these consolidated balance sheets.

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**SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS (NOTE 2)
FOR THE YEARS ENDED DECEMBER 31, 2009, AND 2008 (RESTATED) (NOTE 3)**

	Years Ended December 31,	
	2009	2008
	(Restated)	
Revenues, net	\$ 888,635	\$ -
Cost of Goods Sold	<u>141,215</u>	<u>-</u>
Gross Profit	<u>747,420</u>	<u>-</u>
Expenses:		
Research and development	396,049	-
Selling, general and administrative	<u>1,758,860</u>	<u>258,615</u>
Total operating expenses	<u>2,154,909</u>	<u>258,615</u>
(Loss) from Operations	<u>(1,407,489)</u>	<u>(258,615)</u>
Other Income (Expense):		
Interest income	213	7,348
Interest (expense)	<u>(12,093)</u>	<u>-</u>
Total other income (expense)	<u>(11,880)</u>	<u>7,348</u>
Provision for Income Taxes	<u>-</u>	<u>-</u>
Net (loss)	(1,419,369)	(251,267)
Net (loss) Attributable to Noncontrolling Interest	<u>(328,345)</u>	<u>-</u>
Net (loss) attributable to Suspect Detection Systems Inc.	<u><u>\$ (1,091,024)</u></u>	<u><u>\$ (251,267)</u></u>
(Loss) Per Common Share:		
(Loss) per common share - Basic and Diluted	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.00)</u></u>
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	<u><u>68,531,107</u></u>	<u><u>68,874,810</u></u>

The accompanying notes to consolidated financial statements are
an integral part of these consolidated statements.

SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
STATEMENTS OF STOCKHOLDERS' EQUITY (NOTE 2)
FOR THE YEARS ENDED DECEMBER 31, 2009, AND 2008 (RESTATED) (NOTE 3)

Description	Common stock		Additional Paid-in Capital	Common Stock Subscriptions	Accumulated (Deficit)	Noncontrolling Interest	Total
	Shares	Amount					
Balance - December 31, 2007	61,500,000	\$ 6,150	\$ 119,801	\$ 378,250	\$ (89,244)	-	\$ 414,957
Payment for common stock subscription	-	-	-	15,000	-	-	15,000
Common stock subscribed - 5,568,337 shares	-	-	-	768,250	-	-	768,250
Common stock issued from subscribed shares	9,523,002	952	1,427,668	(1,161,500)	-	-	267,120
Common stock issued for services	1,666,666	167	249,833	-	-	-	250,000
Net (loss) for the period	-	-	-	-	(251,267)	-	(251,267)
Balance - December 31, 2008	<u>72,689,668</u>	<u>7,269</u>	<u>1,797,302</u>	-	<u>(340,511)</u>	-	<u>1,464,060</u>
Cancellation of common stock by Director and officer	(7,000,000)	(700)	700	-	-	-	-
Common stock issued to Officer for services	170,000	17	25,483	-	-	-	25,500
Common stock issued for cash	2,013,334	201	301,799	-	-	-	302,000
Purchase of 51% of SDS- Israel shares as subsidiary investment	-	-	-	-	-	97,073	97,073
Common stock issued for 7% increase in subsidiary investment	3,199,891	320	1,539	-	-	(1,859)	-

Common stock issued for services	750,000	75	112,425	-	-	-	112,500
							-
Payment for common stock subscription	-	-	-	25,000	-	-	25,000
Net (loss) for the period	-	-	-	-	(1,091,024)	-	(1,091,024)
							-
Net (loss) for the period - Noncontrolling interest	-	-	-	-	-	(328,345)	(328,345)
Balance - December 31, 2009	<u>71,822,893</u>	<u>\$ 7,182</u>	<u>\$2,239,248</u>	<u>\$ 25,000</u>	<u>\$ (1,431,535)</u>	<u>\$ (233,131)</u>	<u>\$ 606,764</u>

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

**SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (NOTE 2)
FOR THE YEARS ENDED DECEMBER 31, 2009,
AND 2008 (RESTATED) (NOTE 3)**

	Years Ended December 31,	
	2009	2008
	(Restated)	
Operating Activities:		
Net (loss)	\$(1,419,369)	\$ (251,267)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Common stock issued for officers' compensation	25,500	-
Common stock issued for promotional services	-	250,000
Common stock issued for consulting services	112,500	-
Depreciation	17,534	-
Changes in Assets and Liabilities-		
Inventory	20,004	-
Prepaid expenses	118,956	(143,392)
Security deposit	-	500
Severance pay fund	(4,736)	-
Accounts payable - Trade	(50,386)	(6,593)
Accrued liabilities	55,685	2,825
Advances from customers	440,149	-
Deferred revenues	55,631	-
Accrued severance pay	36,514	-
	<u>(592,018)</u>	<u>(147,927)</u>
Net Cash (Used in) Operating Activities		
Investing Activities:		
Cash acquired in business combination	689,973	-
Deferred acquisition costs	-	(1,059,500)
Purchases of Property and Equipment	(14,015)	-
	<u>675,958</u>	<u>(1,059,500)</u>
Net Cash Provided by (Used in) Investing Activities		
Financing Activities:		
Issuance of common stock for cash	302,000	1,035,370
Cash advances applied in acquisition of subsidiary	-	-
Due from related party - SDS - Israel	28,000	(28,000)
Stock subscriptions paid	25,000	15,000
Due to Director and stockholder	99,253	88
	<u>454,253</u>	<u>1,022,458</u>
Net Cash Provided by Financing Activities		
Net Increase (Decrease) in Cash	538,193	(184,969)
Cash and Cash Equivalents - Beginning of Period	<u>179,565</u>	<u>364,534</u>
Cash and Cash Equivalents - End of Period	<u>\$ 717,758</u>	<u>\$ 179,565</u>
Cash and Cash Equivalents - End of Period Consisting of:		
	-	
Cash in bank	\$ 701,931	\$ 179,565
Restricted cash	15,827	-
	<u>\$ 717,758</u>	<u>\$ 179,565</u>
Total		
	<u>\$ 717,758</u>	<u>\$ 179,565</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	<u>\$ -</u>	<u>\$ -</u>

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The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Income taxes	<u>\$ -</u>
	<u>\$ -</u>

**SUSPECT DETECTION SYSTEMS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (NOTE 2)
FOR THE YEARS ENDED DECEMBER 31, 2009, AND 2008 (RESTATED) (NOTE 3)**

On April 20, 2008, SDS Inc. issued 666,666 (post forward stock split) shares of its common stock to a third-party for marketing and promotional services for one year. The transaction was valued at \$100,000.

On October 1, 2008, SDS Inc. issued 1,000,000 (post forward stock split) shares of its common stock to a third-party for marketing and promotional services for one year. The transaction was valued at \$150,000.

On January 16, 2009, SDS Inc. issued 120,000 (post forward stock split) shares to its Chief Financial Officer, Mr. Zwebner for services rendered. The transaction was valued at \$18,000.

On May 6, 2009, SDS Inc. issued 50,000 shares to its Secretary, Treasurer, and Director, Mr. Julius Klein, for services rendered. The transaction was valued at \$7,500.

On May 6, 2009, SDS Inc. issued 750,000 shares to a consulting company for services rendered. The transaction was valued at \$112,500.

On August 18, 2009, the Company acquired an additional seven (7) percent of the capital stock of SDS - Israel by issuing 3,199,891 shares of common stock.

The transaction was recorded at cost as an equity transaction in the accompanying consolidated financial statements.

The accompanying notes to consolidated financial statements are
an integral part of these consolidated statements.

**SUSPECT DETECTION SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
DECEMBER 31, 2009, AND 2008**

1) Summary of Significant Accounting Policies

Basis of Presentation and Organization

Suspect Detection Systems Inc. ("SDS Inc." or the "Company") is a Delaware corporation that conducts its operations through its 58 percent owned subsidiary, Suspect Detection Systems Ltd., an Israeli Corporation ("SDS - Israel"). The Company was incorporated under the laws of the State of Delaware on October 5, 2006, as PCMT Corporation. On December 24, 2008, the Company's stockholders resolved to change its name from PCMT Corporation to Suspect Detection Systems Inc. On January 27, 2009, the Company filed an amendment to its Certificate of Incorporation with the Secretary of State of Delaware to reflect this change. The Company was in the development stage during the year ended December 31, 2008. The revised business plan of the Company is the application of proprietary technologies for law enforcement and border control, including counter terrorism efforts, immigration control and drug enforcement, as well as human resource management, asset management and the transportation sector. The accompanying consolidated financial statements were prepared from the accounts of the Company and its subsidiary under the accrual basis of accounting.

On January 20, 2009, SDS Inc. completed a business combination for the purchase of 51 percent of the issued and outstanding shares of SDS - Israel for consideration of \$1,100,000. The Company incurred an additional \$35,000 in acquisition costs related to legal and accounting fees. The business combination was accounted for by the purchase method and accordingly, the purchase price has been allocated to the estimated fair values of the respective assets acquired and liabilities assumed of SDS - Israel, with the remaining representing goodwill in the amount of \$1,033,964. The results of operations of SDS - Israel have been included in the consolidated financial statements of the Company commencing January 20, 2009.

In July 9, 2009, SDS Inc. entered into an Exchange Agreement (the "Exchange Agreement") with the Northern Group LP ("NG"), pursuant to which NG exchanged 170,295 ordinary shares of SDS - Israel for 3,199,891 of SDS Inc.'s common stock. The 170,295 shares of SDS- Israel represented 7 percent of the outstanding shares of SDS-Israel and increased SDS Inc.'s ownership interest in SDS- Israel to 58 percent. The acquisition of the additional equity interest was accounted for by the equity method. . The increased percentage of ownership of SDS - Israel, amounting to 58 percent, has been applied to the operations of this subsidiary from July 9, 2009, through December 31, 2009.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 58 percent owned Israeli subsidiary, Suspect Detection Systems Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting within the consolidated statements of cash flows, the Company considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

SUSPECT DETECTION SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
DECEMBER 31, 2009, AND 2008

Revenue Recognition

The Company recognizes revenues when delivery of goods or completion of services has occurred provided there is persuasive evidence of an agreement, acceptance has been approved by its customers, the fee is fixed or determinable based on the completion of stated terms and conditions, and collection of any related receivable is probable.

Loss per Common Share

Basic loss per share is computed by dividing the net loss attributable to the common stockholders by the weighted average number of shares of common stock outstanding during the periods. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were no dilutive financial instruments issued or outstanding for the years ended December 31, 2009, and 2008.

Income Taxes

The Company accounts for income taxes pursuant to FASB ASC 740, "Accounting for Income Taxes" ("SFAS No. 109"). Under FASB ASC 740-10-25, deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the assets and liabilities generating the differences.

The Company maintains a valuation allowance with respect to deferred tax assets. SDS Inc. establishes a valuation allowance based upon the potential likelihood of realizing the deferred tax asset and taking into consideration SDS Inc.'s financial position and results of operations for the current period. Future realization of the deferred tax benefit depends on the existence of sufficient taxable income within the carryforward period under the Federal tax laws.

Changes in circumstances, such as the Company generating taxable income, could cause a change in judgment about the realizability of the related deferred tax asset. Any change in the valuation allowance will be included in income in the year of the change in estimate.

Fair Value of Financial Instruments

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts SDS Inc. could realize in a current market exchange. As of December 31, 2009, and 2008, the carry value of financial instruments approximated fair value due to the short-term nature and maturity of these instruments.

Deferred Acquisition Costs

The Company defers as other assets the direct incremental costs of acquiring a company until such time as the acquisition is completed. At the time of the completion of the acquisition, the costs are charged against the goodwill of the acquired company. Should the acquisition be terminated, deferred acquisition costs are charged to operations during the period in which the agreement is terminated. As of December 31, 2009, and 2008, the Company had \$0 and \$1,135,000, respectively, of deferred acquisition costs, and recognized \$1,033,964 of goodwill from the Company's business combination transactions.

SUSPECT DETECTION SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
DECEMBER 31, 2009, AND 2008

Concentration of Risk

As of December 31, 2009, and 2008, the Company maintained its cash account at two commercial banks. The balances in the accounts are subject to FDIC coverage of up to \$250,000 per institution.

Common Stock Registration Expenses

The Company considers incremental costs and expenses related to the registration of equity securities with the SEC, whether by contractual arrangement as of a certain date or by demand, to be unrelated to original issuance transactions. As such, subsequent registration costs and expenses are reflected in the accompanying financial statements as general and administrative expenses, and are expensed as incurred.

Lease Obligations

All noncancellable leases with an initial term greater than one year are categorized as either capital or operating leases. Assets recorded under capital leases are amortized according to the methods employed for property and equipment or over the term of the related lease, if shorter.

Goodwill

The Company accounts for Goodwill in accordance with the FASB ASC Topic 350, "Intangible-Goodwill and Other." The Company evaluates Goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of Goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including Goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using discounted projected cash flows. If the carrying amount of the reporting unit exceeds its fair value, Goodwill is considered impaired, and a second step is performed to measure the amount of impairment loss, if any. The Company conducts our annual impairment test as of December 31 of each year, and determines if there is any impairment. The amount of goodwill was \$1,033,964 as of December 31 of 2009, and there was no impairment of Goodwill as of that date.

Estimates

The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of consolidated assets and liabilities as of December 31, 2009, and 2008, and consolidated revenues and expenses for the years ended December 31, 2009, and 2008. Actual results could differ from those estimates made by management.

(2) Going Concern

The Company's current activities include sales of its products, marketing, capital formation, research and development, and building infrastructure. The Company incurred a loss of approximately \$1,091,024 for the year ended December 31, 2009 (2008-\$251,267) and, as of December 31, 2009, the Company had an accumulated deficit of approximately \$1,431,535 (2008-\$340,511). The Company's ability to continue as a going concern is uncertain. The revised business plan of the Company is the application of proprietary technologies for law enforcement and border control, including counter terrorism efforts, immigration control and drug enforcement, as well as human resource management, asset management and the transportation sector.

**SUSPECT DETECTION SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
DECEMBER 31, 2009, AND 2008**

While management of the Company believes that the Company will be successful in its current and planned operating activities, there can be no assurance that the Company will be successful in the achievement of sales of its products that will generate sufficient revenues to earn a profit and sustain the operations of the Company. The Company also intends to conduct additional capital formation activities through the issuance of its common stock and loans from related parties.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has not established sufficient sources of revenues to cover its operating costs and expenses. As such, it has incurred an operating loss since inception. Further, as of December 31, 2009, and 2008, the cash resources of the Company were insufficient to meet its planned business objectives. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

(3) Restatement

Subsequent to December 31, 2009, management of the Company determined that in accordance with FASB ASC 810-10-45, the carrying value of the goodwill, and the related accumulated deficit, and additional paid-in capital, and noncontrolling interest for the period ended December 31, 2009, resulting from the exchange of 3,199,891 shares of common stock of the Company for 170,295 ordinary shares of SDS – Israel for an additional seven percent interest in the equity ownership of SDS – Israel (where the Company already owned the controlling interest), was overstated by \$291,690 for goodwill, overstated by \$478,125 for the additional paid in capital, overstated by \$1,960 for accumulated deficit, and overstated by \$184,475 for the noncontrolling interest. (See Notes 5 and 9 for additional information). The Company corrected the error by decreasing goodwill by \$291,690, and decreased its accumulated deficit by \$1,960, additional paid in capital by \$478,125 and noncontrolling interest by \$184,475, respectively. The adjustment had a minor impact on the net (loss) attributable to the Company for the period ended December 31, 2009, amounting to a decrease in the net (loss) of \$1,960. (Loss) per share – basic and diluted for the period remained unchanged.

(4) Appointment of Officers

On October 18, 2007, SDS Inc. appointed Mr. Asher Zwebner as Chief Financial Officer (“CFO”). On October 23, 2007, an employment agreement was entered into with the CFO. This agreement provides that the CFO will receive a base salary of \$3,000 per quarter and \$5,000 per annual audit. This office will be held by the individual until the next annual general meeting of the stockholders of SDS Inc. or until a successor is elected or appointed.

On January 23, 2008, the Company appointed Mr. Constantin Stukalin as Treasurer. This office will be held by the individual until the next annual general meeting of the stockholders of SDS Inc. or until a successor is elected or appointed.

On April 30, 2008, Mr. Yosef Nachum Bernstein resigned as the Company's Secretary and tendered his resignation as a Director, effective May 31, 2008.

Mr. Nachman Shlomo Kohen also resigned as a Director of SDS Inc. and tendered his resignation as the Company's President, effective May 5, 2008.

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On the same date, Mr. Asher Zwebner was appointed as the Company's interim Chief Executive Officer, and was elected as a Director of SDS Inc.

(5) Common Stock

On April 20, 2008, SDS Inc. entered into a written agreement with an unrelated third-party consulting company to provide advisory services for corporate development, acquisitions, and management assistance for one year. As payment for the consultant's services, the Company issued 666,666 shares (post forward stock split) of its unregistered common stock on said date valued at \$100,000.

On October 1, 2008, SDS Inc. entered into a written agreement with an unrelated third-party consultant to provide advisory services for corporate development, acquisitions, and management assistance for one year. As payment for the consultant's services, the Company issued 1,000,000 shares (post forward stock split) of its unregistered common stock on said date valued at \$150,000.

In October 2008, SDS Inc. began a fourth capital formation activity through a Private Placement Offering ("PPO #4"), exempt from registration under the Securities Act of 1933, to raise up to \$600,000 through the issuance of Units. Each Unit consists of a Promissory Note and shares of common stock of the Company in the amount of 250,000 shares for each \$100,000 of principal amount of the Promissory Note. As of December 31, 2009, the Company had not subscribed any shares.

On January 16, 2009, the Company issued 120,000 shares of common stock at par \$0.0001, valued at \$18,000, to an officer and Director for the services provided.

On January 19, the former Secretary and Director of SDS Inc. returned 7,000,000 shares of SDS Inc.'s common stock, which shares were cancelled.

In April 2009, SDS Inc. began a fifth capital formation activity through PPO #5, exempt from registration under the Securities Act of 1933, to raise up to \$2,500,000 through the issuance of 16,666,666 Units. Each Unit consists of one share of common stock of the Company, and one warrant with the exercise price at \$0.25 per share, which expired one year from the date of subscription, and one warrant with the exercise price at \$0.375 per share, which will be expired three years from the date of subscription. As of December 31, 2009, the Company had issued 1,633,334 shares of common stock subscribed for proceeds of \$245,000.

On May 6, 2009, SDS Inc. issued 50,000 shares to its Secretary, Treasurer, and Director, Mr. Julius Klein, for services rendered. The transaction was valued at \$7,500.

On May 6, 2009, SDS Inc. issued 750,000 shares to a consulting company for services rendered. The transaction was valued at \$112,500.

In July 2009, SDS Inc. began a sixth capital formation activity through PPO #6, exempt from registration under the Securities Act of 1933, to raise up to \$1,500,000 through the issuance of 10,000,000 Units. Each Unit consists of one share of common stock of the Company, and one warrant with the exercise price at \$0.25 per share, which expired one year from the date of subscription, and one warrant with the exercise price at \$0.375 per share, which will be expired three years from the date of subscription. As of December 31, 2009, the Company had issued 80,000 shares of common stock subscribed for proceeds of \$12,000.

SUSPECT DETECTION SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)
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On August 18, 2009, the Company issued 3,199,891 shares of common stock to NG in accordance with the terms of the Exchange Agreement, entered between the Company and NG on July 9, 2009, to exchange 170,295 shares of SDS-Israel common stock that NG held. As result of this transaction, the Company acquired additional 7 percent of ownership interest in SDS- Israel.

(6) Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2009, and 2008 were as follows (assuming a 23 percent effective tax rate):

	Years Ended	
	December 31,	
	2009	2008
Current Tax Provision:		
Federal and state -		
Taxable income	\$ _____	\$ _____
	-	-
Total current tax provision	<u>\$ _____</u>	<u>\$ _____</u>
Deferred Tax Provision:		
Federal and state-		
Loss carryforwards	\$ 250,936	\$ 34,815
Change in valuation allowance	<u>(250,936)</u>	<u>(34,815)</u>
Total deferred tax provision	<u>\$ _____</u>	<u>\$ _____</u>

SDS Inc. had deferred income tax assets as of December 31, 2009, and 2008, as follows:

	As of December 31,	
	2009	2008
Loss carryforwards	\$ 329,254	\$ 78,318
Less - Valuation allowance	<u>(329,254)</u>	<u>(78,318)</u>
Total net deferred tax assets	<u>\$ _____</u>	<u>\$ _____</u>

The Company provided a valuation allowance equal to the deferred income tax assets for the years ended December 31, 2009, and 2008, because it is not presently known whether future taxable income will be sufficient to utilize the loss carryforwards.

As of December 31, 2009, and 2008, the Company had approximately \$1,198,404 and \$340,511 in tax loss carryforwards that can be utilized in future periods to reduce taxable income, and expire in various periods through the year 2029.

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(7) Related Party Transactions

As of December 31, 2008, SDS Inc. owed \$288 to an individual who is a former Director, President, and Treasurer of SDS Inc., and a current stockholder. The loan was provided for working capital purposes, and is unsecured, non-interest bearing, and has no terms for repayment

Effective October 5, 2006, SDS Inc. entered into a verbal agreement with an individual who is a former Director, President, and Treasurer of SDS Inc., and current stockholder of the Company, to lease 250 square feet of office space for operations in Jerusalem, Israel. The monthly lease rental amount is \$300, and the term of the lease arrangement is month-to-month. At the end of the March 2009, the Company terminated the verbal agreement regarding the lease of office space. As of December 31, 2009, and 2008, SDS Inc. had accrued \$8,952 and \$8,052, respectively, in office rent expense related to the lease.

On October 23, 2007, SDS Inc. entered into an employment agreement with its CFO. This agreement provides that the CFO will receive a base salary of \$3,000 per quarter and \$5,000 per annual audit. This agreement is effective until the next annual general meeting of the stockholders of the Company or until his successor is elected or appointed. During the years ended December 31, 2009, and 2008, SDS Inc. recognized \$14,000 and \$20,200, respectively in officer's compensation expense.

As described in Note 5 on January 16, 2009, the Company issued 120,000 shares of common stock at par \$0.0001, valued at \$18,000, to an officer and Director for the services provided.

As described in Note 5, on May 6, 2009, SDS Inc. issued 50,000 shares to its Secretary, Treasurer, and Director, Mr. Julius Klein for services rendered. The transaction was valued at \$7,500.

As of December 31, 2009, the Company owed \$99,541 to the Directors of SDS – Israel. The loan was provided for working capital purposes, and is unsecured, non-interest bearing, and has no terms for repayment.

(8) Commitments

As discussed in Note 7, the Company entered into a verbal agreement for the lease of office space on a month-to-month basis with an individual who is a former Director and officer of the Company and a current stockholder. The monthly lease amount is \$300. On April 1, 2009, the Company terminated the office lease verbal agreement.

As discussed in Note 4, on October 18, 2007, SDS Inc. appointed Mr. Asher Zwebner as CFO. On October 23, 2007, an employment agreement was entered into with the CFO. This agreement provides that the CFO will receive a base salary of \$3,000 per calendar quarter and \$5,000 per annual audit. The employment agreement is effective until the next annual general meeting of the stockholders of the Company or until his successor is elected or appointed.

As discussed in Note 5, on December 5, 2007, the Company entered into a written commitment with a third-party attorney to provide legal services and assistance with required SEC filings. Legal services under the arrangement principally commenced during the period ended December 31, 2007. The attorney will receive \$3,000 per month and miscellaneous reimbursement of expenses incurred on SDS Inc.'s behalf.

On March 15, 2008, SDS Inc. entered into a written commitment with a third-party consultant to provide marketing and promotional assistance for up to 50 hours per month, beginning April 2008. In return for these services, the consultant will receive a monthly service fee of \$7,000, a stock option for purchasing 100,000 shares of common stock at \$0.15 per share, and an annual performance-based bonus at the discretion of SDS Inc. In May 2008, this agreement was placed on hold. As of December 31, 2008, the options were not issued and may not be issued in the future depending on the resolution of the agreement.

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As described in Note 5, on April 20, 2008, SDS Inc. entered into a written agreement with an unrelated third-party consulting company to provide advisory services for corporate development, acquisitions, and management assistance for one year. As payment for the consultant's services, the Company issued 666,666 shares (post forward stock split) of its unregistered common stock on said date valued at \$100,000.

As described in Note 5, on October 31, 2008, SDS Inc. entered into a written agreement with an unrelated third-party consultant to provide advisory services for corporate development, acquisitions, and management assistance for one year. As payment for the consultant's services, the Company issued 1,000,000 shares (post forward stock split) of its unregistered common stock on said date valued at \$150,000.

On January 20, 2009, an employment agreement was entered into between SDS - Israel and its Chief Executive Officer (CEO). This agreement provides that the CEO will receive a base salary of NIS 63,000 per month, plus monthly contributions by SDS - Israel of an aggregate of 20.84 percent of the base salary towards the cost of the CEO's life insurance, pension savings, disability insurance, severance compensation fund, and professional education. SDS Inc. has agreed to guarantee the performance by SDS - Israel of all its obligations under the employment agreement.

On April 1, 2009, the Company entered into a Consulting Agreement with L.A. Investments Ltd. (the "Consultant"). The Consultant agreed to render assistance and advice to the Company relating to capitalization and financing of the Company. The Consulting Agreement is for a term of three years, commencing on April 1, 2009. In consideration for such services, the Company agreed to compensate the Consultant in the amount of \$6,500 quarterly, commencing on April 1, 2009.

In addition, the Company agreed to issue to the Consultant warrants to purchase an aggregate of 1,800,000 shares of the Company's common stock. On each of April 1, 2009, September 1, 2009, March 1, 2010, and September 1, 2010, provided that the Consulting Agreement is still in force, the Company shall issue a warrant to purchase 450,000 shares of the Company's common stock. Each common stock purchase warrant entitles the Consultant to purchase one share of the Company's common stock at an exercise price of \$0.15 per share and is exercisable for a period of two years.

(9) Business Combination

On October 18, 2007, SDS Inc. entered into a Letter Agreement with SDS - Israel. The Letter Agreement allowed the Company to conduct a due diligence review of SDS - Israel and its technology for the purpose of entering into a future business combination transaction on terms and conditions to be negotiated. As part of the Letter Agreement, SDS Inc. committed to raise \$1,500,000 and agreed to advance proceeds of \$60,000 to SDS - Israel. As of December 31, 2007, SDS Inc. had paid SDS - Israel \$60,000. In January 2008, SDS Inc. and SDS - Israel amended the Letter Agreement such that the Company agreed to advance SDS - Israel an additional \$30,000 each month commencing January 2008 until the consummation or termination of the Letter Agreement. The amount of \$60,000 previously paid by SDS Inc. to SDS - Israel as well as each monthly payment of \$30,000 served to reduce the \$1,500,000 which SDS Inc. was committed to raise. In May 2008, SDS Inc. and SDS - Israel again amended the Letter Agreement such that the Company agreed to advance SDS - Israel \$80,000 each month commencing May 2008 until the consummation or termination of the Letter Agreement. In August 2008, SDS Inc. and SDS - Israel again amended the Letter Agreement such that the Company agreed to advance SDS - Israel \$100,000 each month commencing August 2008 until the consummation or termination of the Letter Agreement. In December 2008, SDS Inc. and SDS - Israel entered into an Investment Agreement and the Company agreed to advance SDS - Israel an additional \$280,000 and SDS - Israel issued to SDS Inc. 1,218,062 shares of SDS - Israel's capital stock, par value NIS 0.01 per share, which represented 51 percent of the issued and outstanding share capital of SDS - Israel. As of December 31, 2008, SDS Inc. had paid SDS - Israel a cumulative total of \$1,100,000.

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On November 14, 2007, the Company entered into a Letter of Intent with SDS - Israel, pursuant to which SDS Inc. intended to acquire all of the issued and outstanding capital stock of SDS - Israel. In consideration thereof, SDS Inc. is to issue to the stockholders of SDS - Israel no less than 28,600,000 (post forward stock split) shares of SDS Inc.'s common stock, or such number of shares of SDS Inc.'s common stock representing not less than 31 percent of SDS Inc.'s issued and outstanding shares of common stock at the time of closing. The closing of the transaction was to take place after SDS Inc. had raised a minimum of \$500,000 from PPO #3. SDS Inc. also agreed to pay up to \$20,000 in accounting fees to obtain Israel Tax Authority approval of the transaction, and up to \$15,000 in legal fees. As of December 31, 2008, SDS Inc. had paid \$15,000 (2007 - \$8,000) in legal fees, and \$20,000 (2007 - \$8,000) in accounting fees in addition to the \$1,100,000 (2007 - \$60,000) described above for a total \$1,135,000 (2007 - \$75,500).

On April 30, 2008, the Company entered into a Share Exchange Agreement (the "Exchange Agreement") between SDS Inc. and SDS - Israel. Pursuant to the Agreement, SDS Inc. was to acquire on the closing date of the agreement 100 percent of the outstanding capital stock of SDS - Israel (1,170,295 shares), in exchange for 21,768,032 newly issued shares of its common stock, and options to purchase 6,831,968 shares of its common stock at an exercise price of \$0.0001 per share at any time on or before the 10th anniversary of issuance of SDS Inc.'s options. The parties agreed that the fair value of the transaction was \$4,290,000. On the closing date of the Agreement, SDS - Israel was to become a wholly owned subsidiary of SDS Inc. As a result of the Agreement, the stockholders of SDS - Israel were to become the beneficial owners of approximately 31 percent of SDS Inc.'s outstanding common stock on the closing date of the Agreement. On December 18, 2008, the Company and SDS - Israel entered into a Termination Agreement and terminated the Agreement, effective immediately.

On January 20, 2009, SDS Inc. and SDS - Israel completed the transactions under the Exchange Agreement. At closing, SDS - Israel issued 1,218,062 ordinary shares, par value NIS 0.01 per share, representing 51 percent of its issued and outstanding share capital to SDS Inc., as consideration for \$280,000 paid by SDS Inc. to SDS - Israel on December 22, 2008, and \$820,000 previously paid by SDS Inc. to SDS - Israel pursuant to the letter agreements dated October 18, 2007, November 14, 2007, January 10, 2008, May 18, 2008, and October 20, 2008.

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The following table summarizes the fair values of the assets acquired and liabilities assumed as of January 20, 2009 (the acquisition date):

Current assets	\$ 783,383
Property and equipment	16,019
Severance pay fund	40,827
Prepaid expenses	<u>28,360</u>
Total assets acquired	<u>\$ 868,589</u>
Current Liabilities	\$ (622,679)
Accrued severance fund	<u>(47,801)</u>
Total Liabilities assumed	<u>\$ (670,480)</u>
Net Assets acquired	<u>\$ 198,109</u>
Non- controlling interest	<u>\$ (97,073)</u>
Total purchase price	<u>\$1,135,000</u>
Excess of purchase price over value of net assets acquired	<u>\$1,033,964</u>

On December 18, 2008 SDS Inc. and SDS –Israel entered into an Investment Agreement (“Investment Agreement”). The Investment Agreement provides for good faith negotiations of a second agreement (the “Second Agreement”), following the closing of the Investment Agreement, pursuant to which: (i) SDS Inc. will grant options to the stockholders of SDS-Israel to exchange their SDS-Israel ordinary shares into shares of the SDS Inc’s common stock; (ii) SDS Inc. will grant options to the holders of options to purchase SDS Inc ordinary shares to exchange such options into options to purchase shares of SDS Inc’s common stock; (iii) SDS Inc. will grant additional options, to Mr. Shabtai Shoval and certain SDS-Israel employees or consultants, to purchase new SDS ordinary shares; and (iv) SDS Inc will grant rights to Mr. Shabtai Shoval and said SDS-Israel employees or consultants to exchange all or any part of the additional SDS options into options to purchase shares of SDS Inc’s common stock.

In accordance with the terms of the Investment Agreement, SDS Inc. entered into an Exchange Agreement, dated July 9, 2009, with NG, pursuant to which NG exchanged 170,295 of its ordinary shares of stock of SDS – Israel for 3,199,891 shares of SDS Inc’s common stock.

Also on July 9, 2009, SDS Inc. also entered into a warrant agreement (the “Warrant Agreement”) with NG, pursuant to which, SDS Inc. issued 2,250,000 stock purchase warrants (the “Warrants”) to NG. Each Warrant grants NG the right to purchase one share of SDS Inc’s common stock, commencing on July 9, 2009, and terminating on July 8, 2011, at an exercise price of \$0.15 per Warrant Share. As a condition to the exchange for all the SDS- Israel ordinary shares of 170,295 for 3,199,891 shares of SDS Inc’s common stock, NG agreed not to sell any shares of SDS Inc’s common stock prior to the one-year anniversary of the agreement. As of March 26, 2010, the Company had not issued any warrants.

On December 24, 2008, SDS Inc.’s stockholders resolved to change its name from PCMT Corporation to Suspect Detection Systems, Inc. On January 27, 2009, the Company filed with the Secretary of State of Delaware an amendment to its Certificate of Incorporation to reflect this change.

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SDS - Israel was incorporated under the Companies Law, 5759-1999, of the State of Israel in 2004. SDS – Israel specializes in the development and application of proprietary technologies for law enforcement and border control, including counter terrorism efforts, immigration control and drug enforcement, as well as human resource management, asset management and the transportation sector. SDS – Israel completed the development of its “Cognito” line of products in 2007, which are based on proprietary software and use commercially available hardware to identify individuals that pose security threats, whether or not they are carrying a weapon on their person or in their belongings. Cognito systems are comprised of a front-end test station and a back office, where multiple-station and multiple-site data is stored, managed, and distributed. The front-end test station serves as the point of contact with the individual being examined. The back-office is designed to manage and control the test stations at a given site and it stores all test histories and traveler profiles and interfaces with external systems and databases. A provisional patent application has been issued for the Cognito line of products in the United States. SDS – Israel is also engaged in the development of behavior based screening technologies for the checkpoint screening market.

(10) Recent Accounting Pronouncements

In March 2008, the FASB issued FASB Statement No. 161, (FASB ASC 815) “*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement 133.*” SFAS No. 161 (FASB ASC 815) enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB No. 133, “Accounting for Derivative Instruments and Hedging Activities”; and (c) derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Specifically, SFAS No. 161 (FASB ASC 815) requires:

- .. disclosure of the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation;
- .. disclosure of the fair values of derivative instruments and their gains and losses in a tabular format;
- .. disclosure of information about credit-risk-related contingent features;
- ... and cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed.

SFAS No. 161 (FASB ASC 815) is effective for fiscal years and interim periods beginning after November 15, 2008. Earlier application is encouraged. The management of Company the does not expect the adoption of this pronouncement to have a material impact on its financial statements.

On May 9, 2008, the FASB issued FASB Statement No. 162, (FASB ASC 105) “*The Hierarchy of Generally Accepted Accounting Principles.*” SFAS No. 162 (FASB ASC 105) is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (“GAAP”) for nongovernmental entities.

Prior to the issuance of SFAS No. 162 (FASB ASC 105), GAAP hierarchy was defined in the American Institute of Certified Public Accountants (“AICPA”) Statement on Auditing Standards (“SAS”) No. 69, “*The Meaning of Present Fairly in Conformity with Generally Accept Accounting Principles.*” SAS No. 69 has been criticized because it is directed to the auditor rather than the entity. SFAS No. 162 (FASB ASC 105) addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP.

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The sources of accounting principles that are generally accepted are categorized in descending order as follows:

- a. FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, and American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB.
- b. FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position.
- c. AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the FASB Emerging Issues Task Force (EITF), and the Topics discussed in Appendix D of EITF Abstracts (EITF D-Topics).
- d. Implementation guides (Q&As) published by the FASB staff, AICPA Accounting Interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry.

SFAS No. 162 (FASB ASC 105) is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendment to its authoritative literature. It is only effective for nongovernmental entities; therefore, the GAAP hierarchy will remain in SAS 69 for state and local governmental entities and federal governmental entities. The management of Company does not expect the adoption of this pronouncement to have a material impact on its financial statements.

On May 26, 2008, the FASB issued FASB Statement No. 163, (FASB ASC 944) "*Accounting for Financial Guarantee Insurance Contracts*." SFAS No. 163 (FASB ASC 944) clarifies how FASB Statement No. 60, "*Accounting and Reporting by Insurance Enterprises*" ("SFAS No. 60"), applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts.

The accounting and disclosure requirements of SFAS No. 163 (FASB ASC 944) are intended to improve the comparability and quality of information provided to users of financial statements by creating consistency. Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises under SFAS No. 60, "*Accounting and Reporting by Insurance Enterprises*." That diversity results in inconsistencies in the recognition and measurement of claim liabilities because of differing views about when a loss has been incurred under FASB Statement No. 5, "*Accounting for Contingencies*" ("SFAS No. 5"). SFAS No. 163 (FASB ASC 944) requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also requires disclosure about (a) the risk-management activities used by an insurance enterprise to evaluate credit deterioration in its insured financial obligations and (b) the insurance enterprise's surveillance or watch list.

SFAS No. 163 (FASB ASC 944) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities. Disclosures about the insurance enterprise's risk-management activities are effective the first period beginning after issuance of SFAS No. 163 (FASB ASC 944). Except for those disclosures, earlier application is not permitted. The management of Company does not expect the adoption of this pronouncement to have material impact on its financial statements.

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On May 22, 2009, the FASB issued FASB Statement No. 164, (FASB ASC 958) "*Not-for-Profit Entities: Mergers and Acquisitions*". SFAS No. 164 (FASB ASC 958) is intended to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. To accomplish that, this Statement establishes principles and requirements for how a not-for-profit entity:

- a. Determines whether a combination is a merger or an acquisition.
- b. Applies the carryover method in accounting for a merger.
- c. Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer.
- d. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

This Statement also improves the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition by amending FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities.

SFAS No. 164 (FASB ASC 958) is effective for mergers occurring on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Early application is prohibited. The management of Company does not expect the adoption of this pronouncement to have material impact on its financial statements.

On May 28, 2009, the FASB issued FASB Statement No. 165, (FASB ASC 855) "*Subsequent Events*." SFAS No. 165 (FASB ASC 855) establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, Statement 165 (FASB ASC 855) provides:

1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on the financial statements of the Company.

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In June 2009, the FASB issued FASB Statement No. 166, (FASB ASC 860) "*Accounting for Transfers of Financial Assets- an amendment of FASB Statement No. 140.*" SFAS No. 166 (FASB ASC 860) is a revision to SFAS No. 140 "*Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*" and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures.

This statement is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. The management of Company does not expect the adoption of this pronouncement to have material impact on its financial statements.

In June 2009, the FASB issued FASB Statement No. 167, (FASB ASC 810) "*Amendments to FASB Interpretation No. 46(R).*" SFAS No. 167 (FASB ASC 810) amends certain requirements of FASB Interpretation No. 46(R), "*Consolidation of Variable Interest Entities*" and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance.

This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The management of Company does not expect the adoption of this pronouncement to have material impact on its financial statements.

In June 2009, the FASB issued FASB Statement No. 168, (FASB ASC 105) "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162.*" SFAS No. 168 (FASB ASC 105) establishes the FASB Accounting Standards Codification (the "Codification") to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles ("GAAP"). The Codification did not change GAAP but reorganizes the literature.

SFAS No. 168 (FASB ASC 105) is effective for interim and annual periods ending after September 15, 2009. The adoption of this pronouncement did not have a material impact on the financial statements of the Company.

(11) Subsequent Events

On January 12, 2010, Mr. Asher Zwebner, the Chief Executive Officer and Chief Financial Officer of the Company, resigned as the Chief Executive Officer. Mr. Zwebner remains as Chief Financial Officer and a Director of the Company.

On January 13, 2010, the Board of Directors of the Company appointed Mr. Gil Boosidan as Chief Executive Officer.

On January 13, 2010, the Board of Directors of the Company appointed Mr. Yoav Krill as its Chairman.