SCM MICROSYSTEMS INC
Form 424B3
February 13, 2009

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-157067

JOINT PROXY STATEMENT/INFORMATION STATEMENT AND PROSPECTUS

PROPOSED MERGER

To the Stockholders of SCM Microsystems, Inc. and Shareholders of Hirsch Electronics Corporation:

The boards of directors of each of SCM Microsystems, Inc. (SCM) and Hirsch Electronics Corporation (Hirsch) have approved a merger transaction in which the businesses of SCM and Hirsch will be combined. We are sending the accompanying joint proxy statement/information statement and prospectus to you to ask you to vote in favor of this merger and the related transactions.

SCM is holding a special meeting of its stockholders in order to obtain the stockholder approval necessary to complete the merger with Hirsch and certain related matters. At the SCM special meeting, which will be held at 1:00 p.m., local time, on March 23, 2009, at SCM s U.S. office located at 41740 Christy Street, Fremont, California 94538, unless postponed or adjourned to a later date, SCM will ask its stockholders to approve, among other items, the issuance of shares of SCM common stock and warrants to purchase shares of SCM common stock to the securityholders of Hirsch in connection with the merger, as described in the accompanying joint proxy statement/information statement and prospectus.

After careful consideration, SCM s board of directors has approved the merger and the related issuance of up to 9,661,470 shares of SCM common stock, par value $0.001, and warrants to purchase up to 4,945,353 shares of SCM common stock and has determined that the merger and such issuance of shares and warrants is in the best interests of SCM and its stockholders. ***Accordingly, SCM s board of directors unanimously recommends that the SCM stockholders vote FOR each of the proposals put to the SCM stockholders at the SCM special meeting.***

Hirsch is holding a special meeting of its shareholders in order to obtain the shareholder approval necessary to complete the merger with SCM. At the Hirsch special meeting, which will be held at 7:30 p.m., local time, on March 11, 2009, at Hirsch s corporate headquarters located at 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, unless postponed or adjourned to a later date, Hirsch will ask its shareholders to approve, among other items, the merger, as described in the accompanying joint proxy statement/information statement and prospectus.

After careful consideration, Hirsch s board of directors has approved the merger and has determined that the merger is in the best interests of Hirsch and its shareholders. ***Accordingly, Hirsch s board of directors unanimously recommends that the Hirsch shareholders vote FOR each of the proposals put to the Hirsch shareholders at the Hirsch special meeting.***

Certain Hirsch shareholders, including Lawrence W. Midland, the president of Hirsch, who in the aggregate own approximately 22% of the outstanding shares of Hirsch common stock, have entered into an irrevocable proxy and voting agreement whereby they have agreed to vote in favor of the merger.

SCM s common stock is currently listed on the NASDAQ Stock Market s National Market under the symbol SCMM and on the Prime Standard of the Frankfort Stock Exchange under the symbol SMY. On February 11, 2009, the last practicable trading day before the date of this proxy statement/information statement and prospectus, the closing sale price of SCM common stock was $2.67 per share as reported on the NASDAQ Stock Market.

More information about SCM, Hirsch and the proposed merger is contained in the accompanying joint proxy statement/information statement and prospectus. ***SCM and Hirsch urge you to read the accompanying joint proxy statement/information statement and prospectus carefully and in its entirety. In particular, you should carefully consider the matters discussed in the section entitled Risk Factors, beginning on page 12 of the accompanying joint proxy statement/information statement and prospectus.***

Your vote is very important, regardless of the number of shares you own of SCM or Hirsch. Please read the accompanying joint proxy statement/information statement and prospectus carefully and cast your proxy vote as promptly as possible.

SCM and Hirsch are excited about the opportunities the proposed merger may bring to SCM stockholders and Hirsch shareholders, and thank you for your consideration and continued support.

Felix Marx
Chief Executive Officer
SCM Microsystems, Inc.

Lawrence W. Midland
President
Hirsch Electronics Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger or the securities of SCM to be issued in connection with the merger, or determined if this joint proxy statement/information statement and prospectus is adequate or accurate. Any representation to the contrary is a criminal offense.

The accompanying joint proxy statement/information statement and prospectus is dated February 13, 2009, and is first being mailed to SCM stockholders and Hirsch shareholders on or about February 18, 2009.

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SCM Microsystems, Inc.
Oskar-Messter-Str. 13, 85737
Ismaning, Germany

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On March 23, 2009

To SCM Microsystems, Inc. Stockholders:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of SCM Microsystems, Inc., a Delaware corporation, will be held at SCM s U.S. office located at 41740 Christy Street, Fremont, California 94538, on March 23, 2009 at 1:00 p.m., local time for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of new shares of SCM common stock, par value $0.001 per share, and warrants to purchase shares of SCM common stock, to securityholders of Hirsch, in connection with the merger proposed under the Agreement and Plan of Merger, dated as of December 10, 2008, by and among SCM, Hirsch Electronics Corporation, a California corporation, and two wholly-owned subsidiaries of SCM, pursuant to which Hirsch will become a new Delaware limited liability company and a wholly-owned subsidiary of SCM through a two-step merger;

2. To consider and vote upon an adjournment of the SCM special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the proposal described immediately above; and

To transact such other business that properly comes before the SCM special meeting or any adjournment or postponement thereof.

The foregoing proposals and the Agreement and Plan of Merger are more fully described in the joint proxy statement/information statement and prospectus accompanying this Notice. Only SCM stockholders of record at the close of business on February 11, 2009 will be entitled to notice of, and a vote at, the SCM special meeting. At the close of business on February 11, 2009, SCM had 15,743,515 shares of stock outstanding and entitled to vote. A list of SCM stockholders entitled to vote at the SCM special meeting will be available for inspection at SCM s principal executive offices in Ismaning, Germany and at its U.S. office in Fremont, California.

All SCM stockholders are cordially invited to attend the SCM special meeting in person. **Whether or not you plan to attend the SCM special meeting in person, please sign and return the enclosed proxy card to ensure that your SCM shares will be represented at the SCM special meeting.** Voting instructions are included with your SCM proxy card. You may revoke your SCM proxy card at any time prior to the SCM special meeting by following the instructions in the accompanying joint proxy statement/information statement and prospectus. If you attend the SCM special meeting and vote by ballot, then your proxy vote will be revoked automatically and only your vote by ballot at the SCM special meeting will be counted. **Regardless of the number shares of SCM that you own or whether or not you plan to attend the SCM special meeting, it is important that your SCM shares be represented and voted. No postage need be affixed if your proxy card is mailed in the United States.**

By Order of the SCM Board of Directors,

Stephan Rohaly
Secretary

Ismaning, Germany
February 13, 2009

SCM S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR PROPOSAL 1 AND 2.

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HIRSCH ELECTRONICS CORPORATION
1900 CARNEGIE AVENUE, BUILDING B
SANTA ANA, CALIFORNIA 92705

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held On March 11, 2009

Dear Hirsch Electronics Corporation Shareholders:

You are cordially invited to attend a special meeting of the shareholders of Hirsch Electronics Corporation, a California corporation (Hirsch). The meeting will be held at Hirsch s corporate headquarters located at 1900 Carnegie Avenue, Building B, Santa Ana, California 92705 on March 11, 2009 at 7:30 p.m. local time for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated December 10, 2008, by and among Hirsch, SCM Microsystems, Inc., a Delaware corporation (SCM), and two wholly-owned subsidiaries of SCM, pursuant to which Hirsch will become a new Delaware limited liability company and a wholly-owned subsidiary of SCM through a two-step merger; and

2. To consider and vote upon an adjournment of the Hirsch special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of the proposal described immediately above.

These proposals are more fully described in the accompanying joint proxy statement/information statement and prospectus, which we urge you to read very carefully. We have included a copy of the Agreement and Plan of Merger as *Annex A* to the accompanying joint proxy statement/information statement and prospectus. Only Hirsch shareholders of record at the close of business on February 10, 2009, the record date for the Hirsch special meeting, are entitled to notice of and to vote at the Hirsch special meeting or any adjournment or postponement of the Hirsch special meeting.

The board of directors of Hirsch unanimously recommends that you vote FOR Proposal No. 1 for adoption of the Agreement and Plan of Merger and the transactions contemplated thereby and FOR Proposal No. 2 for an adjournment of the Hirsch special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the foregoing Proposal No. 1.

Even if you plan to attend the Hirsch special meeting in person, Hirsch requests that you sign and return the enclosed Hirsch proxy card to ensure that your Hirsch shares will be represented at the Hirsch special meeting if you are unable to attend.

By Order of the Hirsch Board of Directors,

Lawrence W. Midland
President

Santa Ana, California
February 13, 2009

PLEASE DO NOT SEND IN ANY HIRSCH STOCK CERTIFICATES AT THIS TIME; FURTHER DOCUMENTATION FOR SUCH PURPOSE WILL BE SENT TO HIRSCH SHAREHOLDERS AFTER APPROVAL AND COMPLETION OF THE MERGER.

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REFERENCE TO ADDITIONAL INFORMATION

This joint proxy statement/information statement and prospectus incorporates important business and financial information about SCM from documents that SCM files with the SEC and which are not included in or delivered with this joint proxy statement/information statement and prospectus. You can obtain such documents, other than certain exhibits to those documents, by requesting them in writing or by telephone from SCM at the following address:

In the United States:

SCM Microsystems, Inc.
41740 Christy Street
Fremont, CA 94538
+1 510-249-4883
ir@scmmicro.com

In Europe:

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5220
ir@scmmicro.com

You may also request more information directly from SCM s proxy solicitor, Georgeson, Inc. by sending an email to the following address: scm@georgeson.com.

You will not be charged for any documents that you request. **If you would like to request documents, please do so by March 17, 2009 in order to receive timely delivery of the documents in advance of the SCM special meeting. See the section entitled Where You Can Find More Information for a detailed description of the documents incorporated by reference into this joint proxy statement/information statement and prospectus.**

Hirsch is not subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act. Accordingly, Hirsch does not file documents with the SEC.

Information contained on the websites of SCM and Hirsch are expressly not incorporated by reference into this joint proxy statement/information statement and prospectus.

Important Notice Regarding the Availability of Proxy Materials for the SCM Stockholder Meeting to Be Held on March 23, 2009 and the Hirsch Shareholder Meeting to Be Held on March 11, 2009.

The joint proxy statement/information statement and prospectus is available at www.scmmicro.com.

ABOUT THIS DOCUMENT

This joint proxy statement/information statement and prospectus forms a part of a registration statement on Form S-4 (Registration No. 333-157067), filed by SCM Microsystems, Inc. with the U.S. Securities and Exchange Commission, and constitutes a prospectus of SCM under Section 5 of the Securities Act of 1933, as amended, and the rules thereunder, with respect to the shares of SCM common stock and warrants to purchase shares of SCM common stock to be issued to securityholders of Hirsch Electronics Corporation in connection with the proposed merger and the related transactions.

In addition, this joint proxy statement/information statement and prospectus constitutes:

A notice of meeting with respect to the SCM special meeting at which SCM s stockholders will consider and vote on certain proposals, including the proposal regarding the issuance of SCM common stock and warrants to purchase shares of SCM common stock in connection with merger;

A proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules thereunder, with respect to the SCM special meeting;

A notice of meeting with respect to the Hirsch special meeting at which Hirsch s shareholders will consider a proposal regarding the merger; and

An information statement with respect to the Hirsch special meeting.

NOTE REGARDING TRADEMARKS

Opening the Digital World is a trademark of SCM; SCM, the SCM logo, @MAXX, CHIPDRIVE and SmartOS are registered trademarks of SCM.

The Hirsch logo, the Velocity logo, ScrambleSmart, ScrambleSmartProx, MATCH, DIGI*TRAC, Hirsch Verification Station, RUU-201, MOMENTUM, BioSmart, We Secure Buildings, Upgrade to Hirsch, The Secure Decision, DigiLock, Rapid Deployment Kit, ScrambleNet, XBox, NET*MUX4, S*NET, X*NET, SNIB and SNIB2 are trademarks of Hirsch; ScramblePad, ScrambleProx and IDK are registered trademarks of Hirsch.

This joint proxy statement/information statement and prospectus may also include trademarks and trade names owned by other parties, and all other such trademarks and trade names mentioned in this joint proxy statement/information statement and prospectus are the property of their respective owners.

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ANNEXES

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QUESTIONS AND ANSWERS ABOUT THE MERGER, THE SCM SPECIAL MEETING AND THE HIRSCH SPECIAL MEETING

The following section provides answers to certain frequently asked questions about the proposed merger, SCM special meeting of stockholders and Hirsch special meeting of shareholders. Please note that this section may not address all issues that may be important to you as an SCM stockholder or a Hirsch shareholder. Accordingly, you should carefully read this entire joint proxy statement/information statement and prospectus, including each of the annexes.

Q. Why am I receiving this joint proxy statement/information statement and prospectus?

A. You are receiving this joint proxy statement/information statement and prospectus because you are either a stockholder of SCM or a shareholder of Hirsch as of the respective record date of SCM s special meeting of its stockholders or Hirsch s special meeting of its shareholders. This joint proxy statement/information statement and prospectus is being used by the boards of directors of each of SCM and Hirsch to solicit your proxy for use at the SCM special meeting and to solicit your proxy for use at the Hirsch special meeting, respectively. This joint proxy statement/information statement and prospectus also serves as the prospectus for shares of SCM common stock and warrants to purchase shares of SCM common stock to be issued in exchange for shares of Hirsch common stock and warrants to purchase Hirsch common stock in connection with the merger.

This joint proxy statement/information statement and prospectus contains important information about the merger, the Merger Agreement, the SCM special meeting and the Hirsch special meeting, which you should read carefully before voting. The enclosed voting materials allow you to cause your shares of SCM common stock or Hirsch common stock, as the case may be, to be voted, without attending the SCM special meeting and the Hirsch special meeting in person.

About the Merger

Q. What is the merger?

A. The proposed merger is a two-step transaction that will result in the combination of the businesses of SCM and Hirsch, whereby Hirsch will become a wholly-owned subsidiary of SCM.

In exchange for their shares of Hirsch common stock and warrants to purchase shares of Hirsch common stock, the securityholders of Hirsch will receive cash, shares of SCM common stock and warrants to purchase shares of SCM common stock.

More specifically, SCM, Deer Acquisition, Inc., a California corporation and wholly-owned subsidiary of SCM (Merger Sub 1), Hart Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of SCM (Merger Sub 2) and Hirsch have entered into an Agreement and Plan of Merger, dated as of December 10, 2008 (the Merger Agreement). The Merger Agreement contains the terms and conditions of the proposed combination of the businesses of SCM and Hirsch. Under the terms of the Merger Agreement:

Merger Sub 1 will merge with and into Hirsch, with Hirsch as the surviving corporation;

as soon as reasonably practicable thereafter, Hirsch will merge with and into Merger Sub 2, with Merger Sub 2 as the surviving entity; and as a result of the mergers, the business and assets of Hirsch will be held by a new Delaware limited liability company and wholly-owned subsidiary of SCM (the Surviving Subsidiary).

The transactions described above are referred to as the Merger in this joint proxy statement/information statement and prospectus.

Q. What if the Merger is not completed?

A. It is possible that the Merger and the other transactions contemplated by the Merger Agreement will not be completed. This might happen if, for example, SCM s stockholders do not approve the issuance of the SCM shares and warrants in connection with the Merger, or if Hirsch s shareholders do not approve the Merger. Should that occur, neither SCM nor Hirsch will be under any obligation to make or consider any alternative proposal regarding the combination of SCM and Hirsch. In certain circumstances, however, SCM or Hirsch may be obligated to pay the other party a termination fee and reimburse the other party for certain expenses, as

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further described in the section entitled The Merger Agreement Termination in this joint proxy statement/information statement and prospectus.

Q. Why are SCM and Hirsch proposing to merge?

A. The board of directors of SCM has determined that the Merger and the related transactions are in the best interests of SCM and its stockholders in part because it presents a compelling strategic opportunity for SCM to strengthen its position in the security industry, expand its product offerings and customer base, and increase its operational scale, among other reasons. The board of directors of Hirsch has determined that the Merger and the related transactions are in the best interests of Hirsch and its shareholders in part because it allows Hirsch shareholders to gain access to an equity interest in SCM and to participate both in the future performance not only of Hirsch but of SCM, and positions the combined company to pursue a strategy focused on the industry trend towards convergence of logical and physical access solutions. For a complete discussion of SCM s and Hirsch s reasons for the Merger, see the sections entitled The Merger The SCM Reasons for the Merger and The Merger The Hirsch Reasons for the Merger in this joint proxy statement/information statement and prospectus.

Q. What vote is required by the SCM stockholders to consummate the Merger?

A. To consummate the Merger, SCM stockholders must approve the issuance of shares of SCM common stock and warrants to purchase SCM common stock in the Merger. The approval of such issuance requires the affirmative vote of a majority of the shares of SCM common stock present in person or represented by proxy and entitled to vote at the SCM special meeting at which a quorum is present, whether voting in person or represented by proxy at the SCM special meeting.

Q. What vote is required by the Hirsch shareholders to consummate the Merger?

A. To consummate the Merger, Hirsch shareholders must approve the Merger, which requires the affirmative vote of the holders of a majority of the outstanding Hirsch common stock as of the record date for the Hirsch special meeting. In addition, pursuant to the Merger Agreement, a condition to SCM s obligation to complete the Merger is that the Merger shall have been approved by Hirsch shareholders holding a majority of the shares of Hirsch common stock outstanding as of the record date for the Hirsch special meeting, without including the affirmative votes of any shares of Hirsch common stock held or beneficially owned by any of Hirsch s directors who could be deemed to have a material financial interest in the Merger or any of the transactions contemplated in connection with the Merger. In addition, pursuant to the Merger Agreement, an additional condition to SCM s obligation to complete the Merger is that not more than 10% of the outstanding shares of Hirsch shall be dissenting shares which, among other things, are shares that were not voted in favor of the Merger and for which a demand for payment and appraisal has been properly made in accordance with the California Corporations Code.

Q. What is the irrevocable proxy and voting agreement and who are the parties to that agreement?

A. Each of the members of Hirsch s board of directors, members of management and their respective affiliates, have entered into an irrevocable proxy and voting agreement with SCM, the Merger Subs and Hirsch, providing that they will, solely in their capacity as Hirsch shareholders, among other things, vote all of their shares of Hirsch common stock in favor of the Merger and the adoption of the Merger Agreement and against any other action or agreement that is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, or materially adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement. The Hirsch shareholders party to the irrevocable proxy and voting agreement also granted SCM an irrevocable proxy to vote their respective shares of Hirsch common stock in accordance with such agreement on their behalf. As of February 10, 2009, Hirsch shareholders that entered into the irrevocable proxy and voting agreement owned in the aggregate 1,021,456 shares of Hirsch common stock, representing approximately 22% of the outstanding shares of Hirsch common stock. For a more complete description of the irrevocable proxy and voting agreement, see the section entitled Certain Agreements Related to the Merger Irrevocable Proxy and Voting Agreement in this joint proxy statement/information statement and prospectus.

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Q. Are there other conditions that need to be satisfied to consummate the Merger?

A. In addition to the requirement of obtaining SCM stockholder and Hirsch shareholder approvals, each of the other closing conditions set forth in the Merger Agreement must be satisfied or waived by the appropriate party. For a summary of the conditions that need to be satisfied to consummate the Merger, see the section entitled The Merger Agreement Conditions to the Completion of the Merger in this joint proxy statement/information statement and prospectus.

Q. What will Hirsch shareholders receive in the Merger?

A. For each share of Hirsch common stock held immediately prior to the effective time of the Merger, the record holder of such share will received $3.00 cash (without interest and less any applicable withholding taxes), two shares of SCM common stock and one warrant to purchase one share of SCM common stock at an exercise price of $3.00, exercisable for two years following the third anniversary of the effective time of the Merger.

Q. Will the amount of cash, number of shares of SCM common stock or number of warrants to purchase shares of SCM common stock payable or issuable to Hirsch shareholders in connection with the Merger be subject to any adjustment, for example if SCM s stock price fluctuates?

A. No. The amount of cash, number of shares of SCM common stock and number of warrants to purchase shares of SCM common stock to be paid or issued, or reserved for issuance in connection with the Merger for each share of Hirsch common stock, is fixed.

Q. Will SCM common stock issued in connection with the Merger be registered and listed on an exchange?

A. Yes. The SCM common stock issued as merger consideration will be registered under the Securities Act of 1933, as amended, and will be listed on the NASDAQ Stock Market under the symbol SCMM and on the Prime Standard of the Frankfurt Stock Exchange under the symbol SMY. The shares of SCM common stock issuable upon the exercise of the warrants to purchase SCM common stock in connection with the Merger will not be registered on the registration statement on Form S-4 of which this joint proxy statement/information statement is a part. SCM intends to comply with any applicable securities regulations and registration requirements for any such issuance prior to the time the warrants become exercisable according to their terms.

Q. Will there be any transfer restrictions affecting the shares of SCM common stock or warrants to purchase shares of SCM common stock issuable to Hirsch shareholders in connection with the Merger?

A. Yes. The shares of SCM common stock to be issued to Hirsch shareholders in connection with the Merger will be subject to a lock-up that prohibits Hirsch shareholders from, among other restrictions, selling or otherwise disposing of or transferring any shares of SCM common stock received in connection with the Merger. This lock-up is effective for six months from the closing date for 50% of the SCM common stock issued to Hirsch shareholders in connection with the Merger, and is effective for nine months from the closing date for the remainder of the shares. Consequently, the Hirsch shareholders will have to bear the economic risk of holding the SCM shares for the period of the lock-up.

Subject to certain limited exceptions, the warrants to purchase shares of SCM common stock issuable to Hirsch shareholders in connection with the Merger will not be transferable by the holder without the prior written consent of SCM, and will not be listed on the NASDAQ Stock Market or otherwise publicly traded.

In addition, if you will be an employee of SCM or the Surviving Subsidiary after the closing, your shares may be subject to SCM s insider trading policies.

For more information regarding the transfer restrictions affecting the shares of SCM common stock or warrants to purchase shares of SCM common stock issuable to Hirsch shareholders in connection with the Merger, see the sections entitled The Merger Agreement Lock-Up, Certain Agreements Related to the Merger Warrants, and Certain Agreements Related to the Merger Stockholder Agreement in this joint proxy statement/information statement and prospectus.

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Q. What is the stockholder agreement and who are the parties to that agreement?

A. Several Hirsch shareholders, including each of the members of Hirsch s board of directors, members of management and their respective affiliates, have entered into a stockholder agreement with SCM. Under the terms of the stockholder agreement, the Hirsch shareholders party thereto have agreed that for three years following the closing date of the Merger they will not propose or enter into any acquisition transaction or take certain other hostile actions with respect to SCM. In addition, under the terms of the stockholder agreement, Lawrence W. Midland and certain of his affiliates have agreed not to sell or transfer, or otherwise dispose of the shares of SCM common stock received in the Merger until one year after the closing date of the Merger with respect to 33% of the shares, 18 months after the closing date with respect to 33% of the shares, and two years after the closing date with respect to the remaining shares. As of February 10, 2009, the shareholders of Hirsch that entered into the stockholder agreement owned in the aggregate 1,021,456 shares of Hirsch common stock, representing approximately 22% of the outstanding Hirsch common stock. For more information regarding the stockholder agreement, see the section entitled Certain Agreements Related to the Merger Stockholder Agreement in this joint proxy statement/information statement and prospectus.

Q. What will happen to the Hirsch options?

A. At the effective time of the Merger, each option to purchase shares of Hirsch common stock outstanding and unexercised immediately prior to the effective time of the Merger will be terminated and cancelled. For more information regarding the treatment of the Hirsch Options, see the section entitled The Merger Agreement Merger Consideration Treatment of Hirsch Options and Warrants in this joint proxy statement/information statement and prospectus.

Q. What will happen to the Hirsch warrants?

A. At the effective time, each warrant to purchase shares of Hirsch common stock outstanding and not terminated or exercised immediately prior to the effective time of the Merger will be converted into a warrant to purchase the number of shares of SCM common stock calculated according to the conversion ratio as defined in the Merger Agreement. For more information regarding the treatment of the Hirsch Warrants and the conversion ratio, see the section entitled The Merger Agreement Merger Consideration Treatment of Hirsch Options and Warrants in this joint proxy statement/information statement and prospectus.

Q. Will there be any change to the shares of SCM common stock held by SCM s stockholders?

A. No. The Merger does not result in any changes to the existing shares of SCM common stock. The current stockholders of SCM will continue to be stockholders of SCM after the Merger.

Q. Who will be the directors of SCM following the Merger?

A. Immediately following the effective time of the Merger, the board of directors of SCM is expected to be composed of the following members:

Name	**Title**
Werner Koepf	Chairman of the Board
Dr. Hagen Hultzsch	Director

Steven Humphreys	Director
Dr. Hans Liebler	Director
Felix Marx	Chief Executive Officer and Director
Lawrence W. Midland	Executive Vice President, President of the Surviving Subsidiary and Director
Stephan Rohaly	Chief Financial Officer and Director
Simon Turner	Director

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Q. Who will be the executive officers of SCM immediately following the Merger?

A. Immediately following the effective time of the Merger, the executive officers of SCM are expected to be composed of the following members:

Name	**Title**
Felix Marx	Chief Executive Officer
Stephan Rohaly	Vice President, Chief Financial Officer and Secretary
Eang Sour Chhor	Executive Vice President, Strategy, Marketing and Engineering
Lawrence W. Midland	Executive Vice President, Hirsch Business Division
Dr. Manfred Mueller	Executive Vice President, Strategic Sales and Business Development

Q. Who will be the directors of the Surviving Subsidiary immediately following the Merger?

A. As a result of the Merger, the Surviving Subsidiary will be a new Delaware limited liability company and a wholly-owned subsidiary of SCM. The Surviving Subsidiary will have no directors and will be managed by SCM as the sole member.

Q. Who will be the executive management of the Surviving Subsidiary immediately following the Merger?

A. Immediately following the effective time of the Merger, the executive management team of the Surviving Subsidiary is expected to be composed of the following members:

Name	**Title**
Lawrence W. Midland	President
Robert Beliles	Vice President of Enterprise Business Development
John Piccininni	Vice President of Sales
Robert Zivney	Vice President of Marketing

Q. What are the material U.S. federal income tax consequences of the Merger to Hirsch shareholders and warrant holders?

A. SCM and Hirsch have structured the Merger with the intent that it qualify as a reorganization under Section 368 of the Internal Revenue Code of 1986. If the Merger qualifies as such a reorganization, Hirsch shareholders will recognize taxable income as a result of the Merger equal to the lesser of (i) the amount of cash received and (ii) the total gain on the transaction. If the Merger qualifies as such a reorganization, Hirsch warrant holders will not be subject to tax as a result of the Merger. The qualification of the Merger as a reorganization depends on numerous factors including whether Hirsch shareholders will receive a sufficient amount of SCM common stock to satisfy the continuity of interest test applicable to reorganizations under Section 368 of the Internal Revenue Code of 1986, as amended. Whether the Merger meets that test depends in large part on the value of the SCM stock issued to Hirsch shareholders as compared to the value of all consideration issued to Hirsch shareholders. Based on an estimated valuation, the Merger should satisfy the continuity of interest test. If, however, the Internal Revenue Service were to challenge the valuation and successfully contend that the Merger failed to qualify as a reorganization, the Merger would be a fully taxable transaction to Hirsch shareholders and warrant holders. In such case, Hirsch shareholders and warrant holders would recognize gain or loss measured by the difference between the value of all consideration received by them in the Merger and their tax basis in the Hirsch common stock and the warrants, as the case may be, surrendered in the Merger. For additional discussion of the tax treatment of the Merger, see the section entitled Material United States Income Tax Consequences of the Merger in this joint proxy statement/information statement and prospectus.

Q: What are the material U.S. federal income tax consequences of the Merger to SCM stockholders?

A: SCM stockholders will not recognize a gain or loss as a result of the Merger, whether or not the Merger qualifies as a reorganization under Section 368 of the Internal Revenue Code of 1986, as amended.

Q: Do Hirsch shareholders have appraisal or dissenters rights in connection with the Merger?

A: Yes. Hirsch shareholders are entitled to exercise dissenters rights in connection with the Merger by complying with all of the California law procedures discussed in the section entitled The Merger Appraisal Rights and Dissenters Rights and in *Annex O*. To exercise dissenters rights in connection with the Merger, a Hirsch shareholder must not vote his or her shares of Hirsch common stock in favor of the Merger and must make a written demand to have Hirsch purchase the shares at their fair market value. Failure to follow precisely any of the statutory procedures set forth in *Annex O* may result in the loss or waiver of dissenters rights under California law.

Q: Do SCM stockholders have appraisal or dissenters rights in connection with the Merger?

A: No. SCM stockholders do not have appraisal or dissenters rights in connection with the issuance of the shares of SCM common stock or warrants to purchase shares of SCM common stock in connection with the Merger or the Merger.

Q. As a SCM stockholder, how does the SCM board of directors recommend that I vote?

A. After careful consideration, the SCM board of directors recommends that SCM stockholders vote:

FOR Proposal No. 1 to approve the issuance of the shares of SCM common stock and the warrants to purchase shares of SCM common stock in connection with the Merger; and

FOR Proposal No. 2 to adjourn the SCM special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1.

Q. As a Hirsch shareholder, how does the Hirsch board of directors recommend that I vote?

A. After careful consideration, the Hirsch board of directors recommends that Hirsch shareholders vote:

FOR Proposal No. 1 to approve and adopt the Merger and the Merger Agreement; and

FOR Proposal No. 2 to adjourn the Hirsch special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1.

Q. What risks should I consider in deciding how to vote?

A. You should carefully read this entire joint proxy statement/information statement and prospectus, including each of the annexes, and pay specific attention to the section entitled Risk Factors, which sets forth certain risks and uncertainties related to the Merger and the businesses of SCM and Hirsch.

Q. When do you expect the Merger to be consummated?

A. Hirsch and SCM cannot predict the exact timing of the completion of the Merger and the related transactions. We currently anticipate that the Merger will occur as soon as reasonably practicable after the satisfaction or waiver by the appropriate party of each of the closing conditions set forth in the Merger Agreement. One of the closing conditions is that the required approvals are obtained at the SCM special meeting to be held on March 23, 2009 and the Hirsch special meeting to be held March 11, 2009. For more information regarding timing, see the section entitled The Merger Agreement Conditions to the Completion of the Merger in this joint proxy statement/information statement and prospectus.

Q. What do SCM stockholders need to do now?

A. SCM urges its stockholders to read this joint proxy statement/information statement and prospectus carefully, including its annexes, and to consider how the Merger affects them. If you are a stockholder of SCM, you are further urged to provide your proxy instructions by mailing your signed SCM proxy card in the enclosed return envelope or by voting by telephone or via the Internet following the instructions on your proxy card. Please provide your proxy instructions only once, unless you are revoking a previously delivered proxy instruction, and as soon as possible so that your shares can be voted at the SCM special meeting.

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Q. What do Hirsch shareholders need to do now?

A. Hirsch urges its shareholders to read this joint proxy statement/information statement and prospectus carefully, including its annexes, and to consider how the Merger affects them. If you are a shareholder of Hirsch, you are further urged to provide your proxy instructions by mailing your Hirsch signed proxy in the enclosed return envelope. Please provide your proxy instructions only once, unless you are revoking a previously delivered proxy instruction, and as soon as possible so that your shares can be voted at the Hirsch special meeting.

About the SCM special meeting and the Hirsch special meeting

Q. When and where is the SCM special meeting of stockholders?

A. The SCM special meeting will be held at SCM s U.S. office, located at 41740 Christy Street, Fremont, California 94538, at 1:00 p.m., local time, on March 23, 2009. All SCM stockholders as of the record date, or their duly appointed proxies, may attend the SCM special meeting.

Q. When and where is the Hirsch special meeting of shareholders?

A. The Hirsch special meeting will be held at Hirsch s corporate headquarters located at 1900 Carnegie Avenue, Santa Ana, California 92705, at 7:30 p.m., local time, on March 11, 2009. Subject to space availability, all Hirsch shareholders as of the record date, or their duly appointed proxies, may attend the Hirsch special meeting. Since seating may be limited, admission to the Hirsch special meeting will be on a first-come, first-served basis.

Q. Who can attend and vote at the SCM special meeting of stockholders?

A. Only holders of record of SCM common stock at the close of business on February 11, 2009 (the SCM record date), are entitled to notice of, and to vote at, the SCM special meeting. As of the SCM record date, there were 15,743,515 shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately 55 holders of record. Each holder of SCM common stock is entitled to one vote for each share of SCM common stock owned as of the SCM record date.

Q. Who can attend and vote at the Hirsch special meeting of shareholders?

A. Only holders of record of Hirsch stock at the close of business on February 10, 2009 (the Hirsch record date), are entitled to notice of and to vote at the Hirsch special meeting. As of the Hirsch record date, there were 4,705,735 shares of Hirsch stock outstanding and entitled to vote at the Hirsch special meeting, held by approximately 315 holders of record. Each holder of Hirsch stock is entitled to one vote for each share of Hirsch stock owned as of the Hirsch record date.

Q. What happens if I do not return a proxy card or otherwise provide proxy instructions, as applicable?

A. If you are a SCM stockholder, the failure to return your proxy card or otherwise provide proxy instructions or vote your shares in person will result in your shares not being counted for purposes of determining whether a quorum is present at the SCM special meeting. In the event that a quorum is not reached or the necessary votes are not received, the SCM special meeting will have to be adjourned to provide more time to obtain a quorum and the necessary votes.

If you are a Hirsch shareholder, the failure to return your proxy or otherwise provide proxy instructions or vote your shares in person will have the same effect as voting against Hirsch Proposal No. 1 and your shares will not be counted for purposes of determining whether a quorum is present at the Hirsch special meeting. In the event that a quorum is not reached or the necessary votes are not received, the Hirsch special meeting will have to be adjourned and recalled for another vote.

Q. May I vote in person at the SCM special meeting of stockholders?

A. If your shares of SCM common stock are registered directly in your name with the SCM transfer agent, then you are considered to be the stockholder of record with respect to those shares, and the proxy materials and SCM proxy card are being sent directly to you by SCM. If you are a SCM stockholder of record, you may attend the

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SCM special meeting and vote your shares in person. However, even if you plan to attend the SCM special meeting in person, SCM requests that you sign and return the enclosed SCM proxy card or vote your shares by telephone or via the Internet to ensure that your shares will be represented at the SCM special meeting, if you are unable to attend. If your shares of SCM common stock are held in a brokerage account or by another nominee, then you are considered the beneficial owner of shares held in street name, and the proxy materials are being forwarded to you by your broker or other nominee together with a voting instruction card to return to your broker or other nominee to direct them to vote on your behalf. As the beneficial owner, you are also invited to attend the SCM special meeting. Because a beneficial owner is not the stockholder of record, however, you may not vote these shares in person at the SCM special meeting unless you obtain a proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting.

Q. May I vote in person at the Hirsch special meeting of shareholders?

A. If your shares of Hirsch common stock are registered directly in your name with Hirsch, then you are considered to be the shareholder of record with respect to those shares, and the proxy materials and Hirsch proxy are being sent directly to you by Hirsch. If you are a Hirsch shareholder of record, you may attend the Hirsch special meeting and vote your shares in person. However, even if you plan to attend the Hirsch special meeting in person, Hirsch requests that you sign and return the enclosed proxy to ensure that your shares will be represented at the Hirsch special meeting.

Q. If my shares are held in street name by my broker, will my broker vote my shares for me?

A. Unless your broker has discretionary authority to vote on certain matters, your broker will not be able to vote your shares of SCM or Hirsch stock without instructions from you. Brokers are not expected to have discretionary authority to vote for the SCM or Hirsch proposals, respectively. Therefore, in order to make sure that your vote is counted, you should instruct your broker to vote your shares following the procedures provided by your broker.

Q. May I change my vote after I have submitted a proxy or provided proxy instructions?

A. SCM stockholders of record may change their vote at any time before their proxy is voted at the SCM special meeting in either of the following manners: First, a stockholder of record of SCM can send a written notice to the Secretary of SCM stating that he or she would like to revoke his or her prior proxy submission. Second, a stockholder of record of SCM can attend the SCM special meeting and vote in person. Attendance alone will not revoke a proxy. If a SCM stockholder of record or a stockholder who owns SCM shares in street name has instructed a broker to vote his or her shares of SCM common stock, the stockholder must follow directions received from his or her broker to change those instructions.

Hirsch shareholders of record, other than those Hirsch shareholders who have executed voting agreements, may change their vote at any time before their proxy is voted at the Hirsch special meeting in either of the following manners: First, a shareholder of record of Hirsch can send a written notice to the Secretary of Hirsch stating that he or she would like to revoke his or her proxy. Second, a shareholder of record of Hirsch can attend the Hirsch special meeting and vote in person. Attendance alone will not revoke a proxy.

Q. What should a SCM stockholder do if he or she receives more than one set of voting materials?

A. As a SCM stockholder, you may receive more than one set of voting materials, including multiple copies of this joint proxy statement/information statement and prospectus and multiple SCM proxy cards or voting instruction cards. For example, if you hold your SCM shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold SCM shares. If you are a holder of record and your SCM shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a holder of both SCM common stock and Hirsch common stock, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this joint proxy statement/information statement and prospectus in the sections entitled The SCM special meeting of Stockholders and The Hirsch special meeting of Shareholders.

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Q. What should a Hirsch shareholder do if he or she receives more than one set of voting materials?

A. As a Hirsch shareholder, you may receive more than one set of voting materials, including multiple copies of this joint proxy statement/information statement and prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your Hirsch shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold Hirsch shares. If you are a holder of record and your Hirsch shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a holder of both SCM common stock and Hirsch common stock, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this joint proxy statement/information statement and prospectus in the sections entitled The SCM special meeting of Stockholders and The Hirsch special meeting of Shareholders.

Q. Should Hirsch shareholders send in their Hirsch stock or warrant certificates now?

A. No. After the Merger is completed, Hirsch shareholders will be sent written instructions for exchanging their Hirsch stock and warrant certificates for the merger consideration. *PLEASE DO NOT SEND IN YOUR HIRSCH SHARE CERTIFICATES NOW OR WITH YOUR HIRSCH PROXY CARD.*

Q. Who can help answer my questions?

A. If you are a SCM stockholder and would like additional copies, without charge, of this joint proxy statement/information statement and prospectus, or if you have questions about the Merger, including the procedures for voting your shares, you should contact:

In the United States:

SCM Microsystems, Inc.
41740 Christy Street
Fremont, CA 94538
+1 510-249-4883
ir@scmmicro.com

In Europe:

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5220
ir@scmmicro.com

You may also request more information directly from SCM s proxy solicitor, Georgeson, Inc. by sending an email to the following address: scm@georgeson.com.

If you are a Hirsch shareholder, and would like additional copies, without charge, of this proxy statement/information statement and prospectus, or if you have questions about the Merger, including the procedures for voting your shares, you should contact:

Hirsch Electronics Corporation
1900 Carnegie Avenue, Building B
Santa Ana, California 92705
Telephone: 949-250-8888 Extension 106
Attn: Secretary

SUMMARY

This summary highlights selected information from this joint proxy statement/information statement and prospectus. It does not contain all of the information that may be important to you. We encourage you to carefully read this entire joint proxy statement/information statement and prospectus, including annexes, and the other documents to which this joint proxy statement/information statement and prospectus refers, to fully understand the merger proposals to be considered at the SCM special meeting and the Hirsch special meeting.

Information About SCM Microsystems and Hirsch Electronics

SCM Microsystems, Inc.

SCM Microsystems, Inc.
41740 Christy Street
Fremont, CA 94538
+1 510-249-4883

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5220

Founded in 1990 in Munich, Germany, incorporated in Delaware in 1996 and publicly traded on both the NASDAQ Stock Market and the Prime Standard of the Frankfurt Stock Exchange, SCM designs, develops and sells hardware and system solutions that enable people to conveniently and securely access digital content and services. SCM sells its secure digital access products into two market segments: Secure Authentication and Digital Media and Connectivity. SCM s Secure Authentication products enable authentication of individuals for applications such as electronic passports and drivers licenses, electronic healthcare cards, secure logical access to PCs and networks, and physical access to facilities. In the Digital Media and Connectivity market, SCM offers commercial digital media readers that are used in digital photo kiosks to transfer digital content to and from various flash media. SCM sells its products to original equipment manufacturers, government contractors, systems integrators, large enterprises, computer manufacturers, banks, and other financial institutions.

Hirsch Electronics Corporation

Hirsch Electronics Corporation
1900 Carnegie Avenue, Building B
Santa Ana, CA. 92705
949-250-8888

Incorporated in California in 1981, Hirsch Electronics Corporation, a privately-held corporation, designs, engineers, manufactures and markets software and hardware in the security management system/physical access control market. Hirsch s business includes full-featured electronic access control systems and a wide range of products and professional services including enterprise-class security management systems with integrated access control, intrusion detection, badging and video features. Hirsch also buys and resells various security related products, computers, peripherals and accessories. Hirsch sells its products through a dealer/systems integrator distribution channel. Hirsch products are sold in dozens of countries, and the majority of sales are located in the United States. The next most significant regions for Hirsch s business are Europe and Asia. Hirsch products are sold in every major industry segment, with the highest number of Hirsch sales occurring in market segments requiring a higher-than-average level of security effectiveness, such as government, critical infrastructure, banking, healthcare and education.

Merger Subs

Deer Acquisition, Inc. is a California corporation and wholly-owned subsidiary of SCM. Merger Sub 1 was formed solely for the purposes of carrying out the Merger and it has not conducted any business operations.

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Hart Acquisition LLC is a Delaware limited liability company and wholly-owned subsidiary of SCM. Merger Sub 2 was formed solely for the purposes of carrying out the Merger and has not conducted any business operations.

The Merger (see page 53)

Through a two-step merger, Hirsch will become a new Delaware limited liability company and a wholly-owned subsidiary of SCM. The business of Hirsch and SCM will be combined and Merger Sub 1 will merge with and into Hirsch, with Hirsch as the surviving corporation. As soon as reasonably practicable thereafter, Hirsch will merge with and into Merger Sub 2, with Merger Sub 2 as the surviving entity.

In exchange for their shares of Hirsch common stock, Hirsch shareholders will receive $3.00 cash (without interest and less any applicable withholding taxes), two shares of SCM common stock and a warrant to purchase one share of SCM common stock at an exercise price of $3.00. Each warrant to purchase Hirsch common stock outstanding and not terminated or exercised immediately prior to the effective time of the Merger will be converted into a warrant to purchase shares of SCM common stock. All options to purchase shares of Hirsch common stock outstanding and unexercised immediately prior to the effective time of the Merger will be terminated and cancelled.

Reasons for the Merger (see page 56)

SCM s Reasons for the Merger

In reaching its unanimous decision to approve the Merger, the SCM board of directors considered a number of factors including, among other factors:

the belief of the SCM board of directors that SCM after the Merger will be better positioned to pursue and implement a strategy focused on the concept of convergence, the much anticipated industry trend which combines both the logical and physical methods of access for security systems;

the fact that both companies are strong in the U.S. government sector, but have complementary areas of concentration;

the fact that Hirsch s strength in the U.S. commercial market is complemented by SCM s activities in the enterprise and financial markets in Europe and Asia;

the belief that the Merger would increase SCM s revenues, net income and internal resources and provide greater operational scale and financial solidity; and

the results of SCM s due diligence review of Hirsch s business, finances and operations and its evaluation of Hirsch s management, competitive positions and prospects.

For more information regarding SCM s reasons for approving the Merger, see the section entitled The Merger The SCM Reasons for the Merger.

Hirsch s Reasons for the Merger

In reaching its unanimous decision to approve the Merger, the Hirsch board of directors considered a number of factors including, among other factors:

the fact that the Merger will allow the Hirsch shareholders to gain an equity interest in SCM, thus providing a vehicle for continued participation by the Hirsch shareholders in the future performance of not only the Surviving Subsidiary, but also of SCM;

the increased liquidity available to Hirsch shareholders through receipt of the cash portion of the consideration and the registered shares of SCM;

the belief of the Hirsch board of directors that the combined company after the Merger will be better positioned to pursue and implement a strategy focused on the concept of convergence, the much anticipated industry trend which combines both the logical and physical methods of access for security systems;

the likelihood in the judgment of the board of directors of Hirsch that the conditions to be satisfied prior to consummation of the Merger transaction will be satisfied or waived; and

under the terms of the Merger Agreement, another party could make a superior acquisition proposal which could be accepted by the board of directors of Hirsch, and that the termination fee, payable to SCM in such situation, would not be a significant impediment to accepting such proposal.

For more information regarding Hirsch s reasons for approving the Merger, see the section entitled The Merger The Hirsch Reasons for the Merger.

Both SCM and Hirsch believe that the Merger will be in the best interests of their respective stockholders and shareholders. However, achieving these anticipated benefits of the Merger is subject to risk and uncertainty, including those risks discussed in the section entitled Risk Factors.

Risk Factors (see page 12)

SCM and Hirsch are subject to numerous risks associated with their businesses and their industries. In addition, the Merger, including the possibility that the closing of the Merger may be delayed or not be completed at all, poses a number of unique risks to both SCM stockholders and the Hirsch shareholders, including the following risks:

SCM and Hirsch may not realize all of the anticipated benefits of the transactions;

SCM may pay a higher price for Hirsch common stock if the value of SCM common stock increases, because the value of the SCM common stock issued in connection with the Merger will depend on its market price at the time of the Merger and the exchange ratio for the Hirsch shares of common stock at the closing of the Merger is fixed;

the Merger may not qualify as a reorganization under Section 368 of the Internal Revenue Code, as amended, in which case the Merger may be a fully-taxable transaction to Hirsch shareholders;

provisions of the Merger Agreement may deter alternative business combinations;

Hirsch s current shareholders will own a large percentage of the SCM common stock after consummation of the Merger, and will have significant influence over the outcome of corporate actions requiring stockholder approval; and such shareholders priorities for SCM s business may be different from SCM s or its other stockholders ;

SCM and Hirsch will incur significant transaction and merger-related costs in connection with the Merger;

if SCM or Hirsch has to pay the termination fee, it could negatively affect Hirsch s business operations or SCM s business operations;

the market price of SCM common stock could decline as a result of the large number of shares that will become eligible for sale after consummation of the Merger;

SCM may not have uncovered all the risks associated with the acquisition of Hirsch and a significant liability may be discovered after closing of the Merger, and the Merger Agreement does not provide for SCM s indemnification by the former Hirsch shareholders against any of Hirsch s liabilities, should they arise or become known after the closing of the Merger;

directors of Hirsch have interests in the transaction that may be different from, or in addition to, the interests of other Hirsch shareholders, which may influence their recommendation and vote;

there has been no public market for the Hirsch common stock and warrants to purchase Hirsch common stock, and the lack of a public market makes it extremely difficult to determine the fair market value of Hirsch; and

if the conditions to the Merger are not met or waived, the Merger will not occur.

These risks and other risks are discussed in greater detail in the section entitled Risk Factors in this joint proxy statement/information statement and prospectus. SCM and Hirsch encourage SCM stockholders and Hirsch shareholders to read and consider all of these risks carefully.

Market Price And Dividend Information (see page 51)

The closing sale price per share of SCM common stock as reported on the NASDAQ Stock Market on December 10, 2008, the last full trading day prior to the public announcement of entry into the Merger Agreement was $1.27, and the closing sale price per share of SCM common stock on February 11, 2009 (the last practicable trading date before the filing of this joint proxy statement/information statement and prospectus) as reported on the NASDAQ Stock Market was $2.67 per share. Following the consummation of the Merger, SCM s common stock, including the shares of SCM common stock issued in connection with the Merger, are expected to continue to trade on the NASDAQ Stock Market under the symbol SCMM and on the Prime Standard of the Frankfurt Stock Exchange under the symbol SMY.

SCM has never declared nor paid cash dividends on its capital stock. SCM currently intends to retain earnings, if any, to finance the growth and development of its business, and does not expect to pay any cash dividends to its stockholders in the foreseeable future.

There has never been, nor is there expected to be in the future, a public market for Hirsch s ordinary shares. As of February 10, 2009, Hirsch had approximately 315 shareholders of record. Hirsch has never declared or paid any cash dividends on its capital stock, nor does it intend to do so in the foreseeable future.

For more information, see the section entitled Market Price and Dividend Information.

Opinion of the Financial Advisor of SCM (see page 64)

Avondale Partners, the financial advisor of SCM, delivered a written opinion, dated December 9, 2008, addressed to the board of directors of SCM, to the effect that, as of the date of the opinion and based on and subject to various assumptions, qualifications, and limitations described in the opinion, the consideration to be to be paid by SCM in the Merger was fair, from a financial point of view, to SCM. The full text of this written opinion to the SCM board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as *Annex E* to this joint proxy statement/information statement and prospectus. Holders of SCM common stock are encouraged to read the opinion carefully in its entirety.

Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch (see page 70)

Imperial Capital, LLC rendered a written opinion to the board of directors of Hirsch, on December 10, 2008, that, as of that date, and based on and subject to various assumptions, qualifications and limitations set forth in the opinion, the Aggregate Consideration to Non-Insiders (as defined in the opinion) was fair, from a financial point of view, to the holders of Hirsch common stock other than Lawrence W. Midland. The full text of this written opinion to the Hirsch board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as *Annex F* to this joint proxy statement/information statement and prospectus. Holders of Hirsch common stock are encouraged to read the opinion carefully in its entirety.

Overview of the Merger Agreement

The Merger Agreement contains the terms and conditions of the proposed combination of the businesses of SCM and Hirsch.

Merger Consideration

At the effective time of the Merger, each share of issued and outstanding Hirsch common stock existing immediately prior to the effective time of the Merger will, without any action on the part of the shareholder thereof, automatically be retired and cease to exist, and be converted into the right to receive $3.00 cash, without interest and less any applicable withholding taxes, two shares of SCM common stock, and a warrant to purchase one share of SCM common stock at an exercise price of $3.00; provided that the following shares will not be so converted:

shares owned by SCM or the Merger Subs;

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- shares held by Hirsch; and
- shares which are held by shareholders properly demanding and perfecting dissenter s rights pursuant to Sections 1300-1313 of the California Corporations Code.

At the effective time, each option to purchase shares of Hirsch common stock outstanding and unexercised immediately prior to the effective time of the Merger will be terminated and cancelled, and neither SCM, the Merger Subs, nor the Surviving Subsidiary will assume or be bound by any obligation with respect to such options.

At the effective time of the Merger, each warrant to purchase shares of Hirsch common stock outstanding and not terminated or exercised immediately prior to the effective time of the Merger will be converted into a warrant to purchase the number of shares of SCM common stock equal to the number of shares of Hirsch common stock that could have been purchased upon the full exercise of such warrant, multiplied by a conversion ratio, rounded down to the nearest whole share. The per share exercise price for each new warrant to purchase SCM common stock issued in exchange for existing warrants to purchase Hirsch common stock will be determined by dividing the per share exercise price of the Hirsch common stock subject to each warrant as in effect immediately prior to the effective time of the Merger by the conversion ratio, and rounding that result up to the nearest cent. As used in this joint proxy statement/information statement and prospectus, the term conversion ratio means the quotient obtained by dividing the aggregate value of the merger consideration per share, by the volume weighted average price of SCM s common stock (as reported on the NASDAQ Stock Market) during the 30 days preceding the day prior to the day of the effective time of the Merger. For a more complete description of the merger consideration, see the section entitled The Merger Agreement Merger Consideration in this joint proxy statement/information statement and prospectus.

The merger consideration and conversion ratio will be appropriately and proportionately adjusted to reflect any stock dividend, subdivision, reclassification, recapitalization, split, combination, or exchange of shares with respect to SCM common stock between the date of the Merger Agreement and the effective time of the Merger.

Lock-up Provisions

The Merger Agreement provides that each Hirsch shareholder will be prohibited during the period beginning on the closing date of the Merger and continuing until the six month anniversary of the closing date from, among other restrictions, directly or indirectly, selling any shares of SCM common stock received in the Merger. During the period commencing on the day after the six month anniversary of the closing date and ending the on date of the nine month anniversary of the closing date, a Hirsch shareholder may sell or transfer only up to 50% of the SCM common stock received by such Hirsch shareholder in connection with the Merger.

No Solicitation

With certain exceptions, Hirsch and SCM agreed that immediately following the execution and delivery of the Merger Agreement, each of the parties and their subsidiaries would cease any and all existing activities, discussions, or negotiations with any person relating to any acquisition proposals. The parties further agreed that until the earlier of the termination of the Merger Agreement and the effective time of the Merger neither Hirsch nor SCM may, nor may any of their respective representatives or affiliates:

- solicit, encourage, seek, entertain, support, assist, initiate or participate in any inquiry, negotiations or discussions, or enter into any agreement, with respect to any acquisition proposal;

disclose or furnish any information in connection with an acquisition proposal concerning the business, technologies or properties of either Hirsch or SCM, or any of their respective subsidiaries, or afford access to its properties, technologies, books or records, in connection with an acquisition proposal;

approve, endorse or recommend an acquisition proposal relating to Hirsch or SCM, respectively;

enter into any letter of intent, memorandum of understanding or other contract contemplating or otherwise relating to an acquisition proposal relating to Hirsch or SCM, respectively; or

terminate, amend or waive any rights under any standstill or other similar contract between it or any of its subsidiaries and any person (other than the other party to the Merger Agreement).

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For a more complete discussion of the exclusivity provisions and permitted acquisition proposals, see the sections entitled The Merger Agreement Certain Covenants of both SCM and Hirsch Exclusivity, The Merger Agreement Certain Covenants of both SCM and Hirsch SCM Acquisition Proposals, and The Merger Agreement Certain Covenants of both SCM and Hirsch Hirsch Acquisition Proposals.

Conditions to Completion of the Merger

In addition to the requirement of obtaining SCM stockholder approval and Hirsch shareholder approval, each of the other closing conditions set forth in the Merger Agreement must be satisfied or waived by the appropriate party. For a summary of the conditions that need to be satisfied to consummate the Merger, see the section entitled The Merger Agreement Conditions to the Completion of the Merger in this joint proxy statement/information statement and prospectus.

Termination of the Merger Agreement

It is possible that the Merger and the other transactions contemplated by the Merger Agreement will not be completed. This might happen if, for example, SCM s stockholders do not approve the issuance of the SCM shares and warrants in connection with the Merger, or if Hirsch s shareholders do not approve the Merger or if other conditions to the Merger are not satisfied. Should that occur, neither SCM nor Hirsch will be under any obligation to make or consider any alternative proposal regarding the combination of SCM and Hirsch. For a more complete discussion of the manners in which the Merger Agreement may terminate, see the section entitled The Merger Agreement Termination in this joint proxy statement/information statement and prospectus.

Termination Fee

In certain circumstances, SCM or Hirsch may be obligated to pay the other party a termination fee of $1.5 million, plus an amount equal to all out-of-pocket expenses (excluding the cost of employee time) incurred by the recipient party in connection with the Merger Agreement, the ancillary agreements, and the transactions contemplated thereby. For a more complete discussion of the termination fee, see the section entitled The Merger Agreement Termination in this joint proxy statement/information statement and prospectus.

Irrevocable Proxy and Voting Agreement

As of the record date for the Hirsch special meeting, Hirsch shareholders that owned in the aggregate 1,021,456 shares of Hirsch common stock, representing approximately 22% of the outstanding shares of Hirsch common stock as of the record date for the Hirsch special meeting, had entered into the irrevocable proxy and voting agreement.

The Hirsch shareholders who are parties to the irrevocable proxy and voting agreement have agreed, solely in their capacity as Hirsch shareholders and among other things, to vote all of their shares of Hirsch common stock in favor of the Merger and the adoption of the Merger Agreement, against any other Hirsch acquisition proposals, against any action or agreement that would reasonably be expected to result in a breach of the Merger Agreement by Hirsch, against any change in a majority of the individuals serving on the Hirsch board of directors as of the date of the signing of the Merger Agreement (subject to certain exceptions), and against any other action or agreement which is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, or materially adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement. The Hirsch shareholders that are parties to the irrevocable proxy and voting agreement also granted SCM an irrevocable proxy to vote their respective Hirsch common stock in accordance with the terms of the irrevocable proxy and voting agreement. A copy of the irrevocable proxy and voting agreement is attached as *Annex B* to this joint proxy statement/information statement and prospectus.

Stockholder Agreement (see page 113)

As of the record date for the Hirsch special meeting, Hirsch shareholders that owned in the aggregate 1,021,456 shares of Hirsch common stock, representing approximately 22% of the outstanding shares of Hirsch common stock as of the record date for the Hirsch special meeting had entered into the stockholder agreement. A brief summary of some of the material provisions of the stockholder agreements are included below, and a copy of the stockholder agreement is attached as *Annex C* to this joint proxy statement/information statement and prospectus.

Standstill Provision

The stockholder agreement includes a standstill provision whereby the Hirsch shareholders who are parties to the stockholder agreement agreed to a three-year standstill period beginning on the closing date of the Merger. During the standstill period, such parties agreed that, subject to limited circumstances, they would not take certain actions that could be hostile to SCM, including without limitation proposing or entering into any acquisition transaction with a third party with respect to SCM, acquiring shares of SCM common stock that would result in such stockholder holding more than 10% of SCM s outstanding shares, participating in or encouraging the solicitation of proxies with respect to SCM securities or the securities of its subsidiaries, participating in or encouraging the formation of any group which owns, seeks, or offers to acquire beneficial ownership of SCM s voting securities or which seeks to control SCM, or otherwise act alone or in concert with others seeking or offering to control or influence the management of SCM s board of directors or the policies of SCM or its subsidiaries.

Lock-Up Agreement

Lawrence W. Midland and his controlled affiliates have agreed to a more restrictive lock-up arrangement than other Hirsch shareholders with respect to the shares of SCM common stock and warrants to purchase shares of SCM common stock issued in connection with the Merger. Specifically, except in limited circumstances, Mr. Midland and his affiliates are prohibited from selling or transferring, or granting or lending or otherwise disposing of, such securities for up to 24 months following the closing date of the Merger. As of the record date for the Hirsch special meeting, Lawrence W. Midland and his controlled affiliates beneficially owned in the aggregate 628,800 shares of Hirsch common stock, representing approximately 13% of the outstanding Hirsch common stock as of the record date for the Hirsch special meeting. For a more complete discussion of the lock-up agreement, see the section entitled Certain Agreements Related to the Merger Stockholder Agreement Lock-Up Agreement.

Agreement to Vote; Election of Directors

The stockholder agreement includes a provision whereby the Hirsch shareholders who are parties to the stockholder agreement agreed that for a period of three years after the closing date of the Merger, subject to limited circumstances relating to Lawrence W. Midland s status as a director on SCM s board of directors, they will vote all shares of SCM common stock owned by them to elect any director nominee that is recommended by the majority of SCM s board of directors, remove any director if such removal is requested or approved by a majority of SCM s board of directors or the SCM nominating committee, or oppose the removal or any director unless such removal is approved by a majority of SCM s board of directors. The stockholders also granted SCM an irrevocable proxy to vote their respective SCM common stock in accordance with the stockholder agreement.

Interests of Directors, Executive Officers and Affiliates of SCM and Hirsch (see page 78)

Hirsch

In considering the recommendation of the Hirsch board of directors with respect to adopting the Merger Agreement, Hirsch shareholders should be aware that certain members of the Hirsch board of directors and certain executive officers of Hirsch have interests in the Merger that may be different from, or in addition to, interests they may have as Hirsch shareholders. For example:

In connection with the Merger, the executive officers of Hirsch have entered into employment agreements with Hirsch to become effective at the closing of the Merger, including salary, bonus, severance and other benefit provisions. For a more detailed discussion of the employment agreements with the Hirsch executive officers, see the section entitled Certain Agreements Related to the Merger Employment Agreements with Hirsch Executive Officers in this joint proxy statement/information statement and prospectus.

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Lawrence W. Midland, a Hirsch director and the President of Hirsch, will be appointed to the SCM board of directors immediately following the effective time of the Merger.

Upon consummation of the Merger, SCM will issue warrants to purchase shares of SCM common stock to each of Hirsch s outside directors in 2008, with the number of shares subject to the warrants to be determined based on the conversion ratio under the Merger Agreement of warrants to purchase 3,000 shares of Hirsch common stock.

Three current directors of Hirsch hold partnership interests in Secure Keyboards, Ltd. (Keyboards) and/or Secure Networks, Ltd. (Networks), which are parties to a settlement agreement with Hirsch that provides for Hirsch to pay royalties based on Hirsch gross revenues to Secure Keyboards, Ltd. until December 31, 2020 and to Secure Networks, Ltd. until December 31, 2011. To the extent that consummation of the Merger results in an increased in the amount of Hirsch revenues, the amount of royalties payable under the settlement agreement will increase. In connection with the entry into the Merger Agreement, two of the four general partners of Secure Keyboards, Ltd. delivered a letter of understanding to SCM. In addition, the two general partners of Secure Networks, Ltd., delivered a substantially similar letter of understanding to SCM. Each letter of understanding contained certain clarifications of the SCM and Hirsch business relationship and its resulting impact on the companies respective revenue streams and on Keyboards or Networks revenue base, as applicable. For a more detailed discussion of the settlement agreement see the section entitled Certain Agreements Related to the Merger Settlement Agreement and Certain Agreements Related to the Merger Keyboards and Networks Letters of Understanding in this joint proxy statement/information statement and prospectus.

Hirsch purchased the outstanding shares of capital stock of Hirsch EMEA, Inc., a British Virgin Island corporation, which is now a wholly-owned subsidiary of Hirsch. One of the parties from which Hirsch purchased shares of Hirsch EMEA, Inc. was tSecu, LLC, a Massachusetts limited liability company which is an affiliate of Ayman Ashour, a former director of Hirsch. For a more detailed discussion of the Hirsch EMEA purchase, see the sections entitled Certain Agreements Related to the Merger Settlement Agreement and Certain Agreements Related to the Merger Hirsch EMEA, Inc. Stock Purchase in this joint proxy statement/information statement and prospectus.

For a period of three years following the effective time of the Merger, and to the extent of insurance coverage, for three additional years, the surviving entity of the Merger will, to the fullest extent permitted by law, indemnify and hold harmless the Hirsch directors and officers serving as of the date of the Merger Agreement; and for a period of six years following the effective time of the Merger, the surviving entity of the Merger will maintain, in effect, a directors and officers liability insurance policy covering the directors and officers of Hirsch, with coverage in amount and scope at least as favorable as the coverage under the existing Hirsch policy at the time the Merger becomes effective up to an aggregate premium for such policy of $50,000.

As of the record date for the Hirsch special meeting, the directors and executive officers of Hirsch, together with their affiliates, owned in the aggregate approximately 1,021,456 shares of Hirsch common stock, entitling them to exercise approximately 22% of the voting power of the Hirsch common stock at the Hirsch special meeting. Hirsch cannot complete the Merger unless the Merger is approved by the affirmative vote of the holders of a majority of the outstanding Hirsch common stock as of the record date for the Hirsch special meeting.

As of the record date for the Hirsch special meeting, the directors and executive officers of Hirsch, together with their affiliates, held in the aggregate options and warrants to purchase approximately 57,000 shares of Hirsch common stock. These options and warrants and any shares of Hirsch common stock issued upon the exercise thereof between the record date will not be entitled to vote at the Hirsch special meeting.

SCM

No director or executive officer of SCM since December 31, 2007, nor their affiliates, have any interests in the Merger that differ from, or are in addition to, their interests as SCM stockholders. As of the record date for the SCM special meeting, the directors and executive officers of SCM, together with their affiliates, owned in the aggregate

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approximately 1,683,452 shares of SCM common stock, entitling them to exercise approximately 11% of the voting power of the SCM common stock at the SCM special meeting. SCM cannot complete the Merger unless the issuance of the shares of SCM common stock and warrants to purchase shares of SCM common stock in connection with the Merger is approved by the affirmative vote of the holders of a majority of the shares of SCM common stock voting at the SCM special meeting.

In addition, as of the record date for the SCM special meeting, the directors and executive officers of SCM, together with their affiliates, held in the aggregate options to purchase approximately 773,176 shares of SCM common stock. These options and any shares of SCM common stock issued upon the exercise thereof will not be entitled to vote at the SCM special meeting.

Ownership of SCM Following the Merger (see page 88)

After the Merger, Hirsch will be a wholly-owned subsidiary of SCM, and Hirsch shareholders will no longer have any direct interest in Hirsch, but will have an equity stake in SCM, the new company of Hirsch s operations. Immediately after the Merger, existing SCM stockholders are expected to own approximately 63% of the outstanding shares of SCM common stock and the former Hirsch shareholders are expected to own approximately 37% of the outstanding shares of SCM common stock. For a more complete discussion of ownership of SCM after the Merger, see the section entitled The Merger Ownership of SCM Following the Merger.

Material U.S. Federal Income Tax Consequences of the Merger (see page 89)

SCM and Hirsch have structured the Merger with the intent that it qualify as a reorganization under Section 368 of the Internal Revenue Code of 1986, as amended, and it is a closing condition to the Merger that the parties receive an opinion of counsel regarding such qualification. If the Merger qualifies as such a reorganization, Hirsch shareholders will recognize taxable income as a result of the Merger equal to the lesser of (i) the amount of cash received and (ii) the total gain realized on the transaction. If the Merger qualifies as such a reorganization, Hirsch warrant holders will not be subject to tax as a result of the Merger. The qualification of the Merger as a reorganization depends on numerous factors including whether Hirsch shareholders will receive a sufficient amount of SCM common stock to satisfy the continuity of interest test applicable to reorganizations under Section 368 of the Internal Revenue Code of 1986, as amended. Whether the Merger meets that test depends in large part on the value of the SCM stock issued to Hirsch shareholders as compared to the value of all consideration (i.e., cash, stock and warrants) issued to Hirsch shareholders. If, however, the Internal Revenue Service were to challenge the valuation and successfully contend that the Merger failed to qualify as a reorganization, the Merger would be a fully taxable transaction to Hirsch shareholders and Hirsch warrant holders. In such case, Hirsch shareholders and Hirsch warrant holders would recognize gain or loss measured by the difference between the value of all consideration received by them in the Merger and their tax basis in the Hirsch common stock and warrants, as the case may be, surrendered in the Merger. SCM stockholders will not recognize gain or loss as a result of the Merger, whether or not the Merger qualifies as a reorganization under Section 368 of the Internal Revenue Code of 1986, as amended. Neither SCM nor Hirsch will recognize gain or loss as a result of the Merger, except for any gain that might arise if SCM pays cash or property to Hirsch in connection with these transactions and such cash or property is not distributed to Hirsch shareholders. SCM does not expect any such gain to be material.

The second-step merger is intended to be treated, along with the first merger, as one integrated transaction for U.S. federal income tax purposes, and SCM and Hirsch do not expect any further tax consequences to the SCM stockholders or the Hirsch shareholders, other than those described above.

Tax matters are very complicated, and the tax consequences of the Merger to a particular Hirsch shareholder or warrant holder will depend in part on such shareholder s or warrant holder s circumstances and jurisdiction.

Accordingly, Hirsch shareholders and warrant holders should consult their tax advisors for a full understanding of the tax consequences of the Merger, including the applicability and effect of federal, state, local and foreign income and other tax laws. For additional discussion of the tax treatment of the Merger, see the section entitled Material United States Income Tax Consequences of the Merger in this joint proxy statement/information statement and prospectus.

Regulatory Approvals (see page 203)

In the United States, SCM must comply with applicable federal and state securities laws and the rules and regulations of the NASDAQ Global Market in connection with the issuance of shares of SCM common stock and warrants to purchase shares of SCM common stock, and the filing of this joint proxy statement/information statement and prospectus with the SEC. In Germany SCM must comply with the applicable laws and regulations related to the issuance of shares of SCM common stock and the filing of a prospectus with the Frankfurt Stock Exchange.

NASDAQ Stock Market Listing (see page 87)

Prior to consummation of the Merger, SCM intends to cause all shares of SCM common stock to be issued in connection with the Merger and all shares of SCM common stock to be issued upon exercise of the warrants to purchase shares of SCM common stock to be approved for listing (subject to notice of issuance) on the NASDAQ Stock Market and the Prime Standard of the Frankfurt Stock Exchange as of the effective time of the Merger, including filing any required additional listing applications or notices with the NASDAQ Stock Market pursuant to NASDAQ Stock Market LLC rules.

Anticipated Accounting Treatment (see page 88)

SCM will account for the acquisition of Hirsch as a purchase of the business, which means that the assets and liabilities of Hirsch will be recorded at their fair value and the results of operations of Hirsch will be included in SCM s results from and after the effective time of the Merger, in accordance with Financial Accounting Standard No. 141 (revised 2007), *Business Combinations*.

Appraisal Rights and Dissenters Rights (see page 42)

SCM stockholders are not entitled to appraisal rights in connection with the Merger under Delaware General Corporation Law. Hirsch shareholders are entitled to appraisal rights in connection with the Merger under California law. For more information about such rights, see the provisions of Sections 1300 through 1313 of Chapter 13 of the California Corporations Code, attached hereto as *Annex O*, and the section entitled The Merger Appraisal Rights and Dissenters Rights in this joint proxy statement/information statement and prospectus.

Failure to follow precisely any of the statutory procedures set forth in *Annex O* may result in the loss or waiver of dissenters rights under California law.

SCM Microsystems Director and Executive Officer Compensation (see page 174)

SCM currently anticipates that Werner Koepf, Dr. Hagen Hultzsch, Steven Humphreys, Dr. Hans Liebler, Felix Marx, Lawrence W. Midland, Stephan Rohaly, and Simon Turner will serve as its board of directors following completion of the Merger. For a complete discussion of the expected board of directors following the Merger, compensation of directors, and compensation of executives, see the section entitled SCM Microsystems Director and Executive Officer Compensation.

Comparison of Stockholder Rights (see page 198)

The rights of Hirsch shareholders are currently governed by the California Corporations Code, Hirsch s articles of incorporation, as amended, and the bylaws of Hirsch. The rights of SCM stockholders are currently governed by the

Delaware General Corporation Law, the Fourth Amended and Restated Certificate of Incorporation of SCM, and the bylaws of SCM. If the Merger is completed, Hirsch shareholders will become stockholders of SCM, and their rights will be governed by the Delaware General Corporation Law, and the certificate of incorporation of SCM and bylaws of SCM. The rights of Hirsch shareholders contained in the articles of incorporation and bylaws of Hirsch differ from the rights of SCM stockholders under the certificate of incorporation of SCM and bylaws of SCM, as more fully described under the section entitled Comparison of SCM Microsystems

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Stockholders and Hirsch Electronics Shareholders Rights and Corporate Governance Matters in this joint proxy statement/information statement and prospectus.

The SCM Special Meeting Of Stockholders (see page 207)

The SCM special meeting will be held at SCM s United States office, located at 41740 Christy Street, Fremont, California 94538, at 1:00 p.m., local time, on March 23, 2009. Only holders of record of SCM common stock at the close of business on February 11, 2009 (the SCM record date) are entitled to notice of, attendance at and to vote at, the SCM special meeting. As of the record date for the SCM special meeting, there were 15,743,515 shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately 55 holders of record. Each holder of SCM common stock is entitled to one vote for each share of SCM common stock owned as of the SCM record date.

There are two proposals at the SCM special meeting. The first proposal at the SCM special meeting is a proposal to approve the issuance of new shares of SCM common stock, par value $0.001 per share, and warrants to purchase shares of SCM common stock, to securityholders of Hirsch, in connection with Merger. The second proposal at the SCM special meeting is a proposal to consider and vote upon an adjournment of the SCM special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the first proposal described immediately above. If you are a SCM stockholder and fail to return your proxy card or otherwise provide proxy instructions or vote your shares in person will result in your shares not being counted for purposes of determining whether a quorum is present at the SCM special meeting. In the event that a quorum is not reached or the necessary votes are not received, the SCM special meeting will have to be adjourned and recalled to obtain a quorum and the necessary votes.

The Hirsch Special Meeting Of Shareholders (see page 211)

The Hirsch special meeting will be held at Hirsch s Corporate Headquarters, 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, at 7:30 p.m., local time, on March 11, 2009. Only holders of record of Hirsch stock at the close of business on February 10, 2009 are entitled to notice of, attendance at and to vote at the Hirsch special meeting. As of the record date for the Hirsch special meeting, there were 4,705,735 shares of Hirsch stock outstanding and entitled to vote at the Hirsch special meeting, held by approximately 315 holders of record. Each holder of Hirsch stock is entitled to one vote for each share of Hirsch stock owned as of the Hirsch record date.

There are two proposals at the Hirsch special meeting. The first proposal at the Hirsch special meeting is a proposal to adopt the Merger Agreement. The second proposal at the Hirsch special meeting is a proposal to consider and vote upon an adjournment of the Hirsch special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of the proposal described immediately above to satisfy each of the conditions to closing concerning the vote set forth in the Merger Agreement. If you are a Hirsch shareholder, the failure to return your proxy or otherwise provide proxy instructions or vote your shares in person will have the same effect as voting against Hirsch Proposal No. 1 and your shares will not be counted for purposes of determining whether a quorum is present at the Hirsch special meeting. In the event that a quorum is not reached or the necessary votes are not received, the Hirsch special meeting will have to be adjourned and recalled for another vote.

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RISK FACTORS

The Merger involves risks for SCM stockholders and Hirsch shareholders. SCM stockholders will be choosing to permit significant dilution of their percentage ownership of SCM by voting in favor of the issuance of additional shares of SCM Common Stock and warrants to purchase shares of SCM common stock in order to complete the Merger. Hirsch shareholders will be choosing to no longer control 100% of Hirsch and to become stockholders of SCM by voting in favor of the Merger. In addition to the risks that their respective businesses currently face, after the Merger, SCM and the Surviving Subsidiary will be faced with a market environment that cannot be predicted and that involves significant risks, many of which will be beyond their control. These risk factors are not intended to represent a complete list of the general or specific risk factors that may affect SCM, Hirsch and the combined business, and these risk factors may not be exhaustive. You should carefully consider the risks described below and the other information contained in this joint proxy statement/information statement and prospectus, including the matters addressed in the section entitled Cautionary Statement Concerning Forward-Looking Statements, before deciding how to vote your shares of common stock.

Risks Relating to the Merger

SCM and Hirsch may not realize all of the anticipated benefits of the transactions.

To be successful after the Merger, SCM and Hirsch will need to combine and integrate the businesses and operations of their separate companies. The combination of two independent companies is a complex, costly and time-consuming process. As a result, after the Merger, the combined company will be required to devote significant management attention and resources to integrating the diverse business practices and operations of SCM and Hirsch. The integration process may divert the attention of the combined company s executive officers and management from day-to-day operations and disrupt the business of either or both of the companies and, if implemented ineffectively, preclude realization of the full benefits of the transaction expected by SCM and Hirsch. SCM has not recently completed a merger or acquisition comparable in size or scope to the transaction. The failure of the combined company, after the Merger, to meet the challenges involved in successfully integrating the operations of SCM and Hirsch or otherwise to realize any of the anticipated benefits of the Merger could cause an interruption of, or a loss of momentum in, the activities of the combined company and could adversely affect its results of operations. In addition, the overall integration of the two companies may result in unanticipated problems, expenses, liabilities, competitive responses and loss of customer relationships, and may cause SCM s stock price to decline. The difficulties of combining the operations of the companies include, among others:

- maintaining employee morale and retaining key employees;
- preserving important strategic and customer relationships;
- the diversion of management s attention from ongoing business concerns;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information, communications and other systems;
- coordinating marketing functions;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations; and

integrating the cultures of SCM and Hirsch.

In addition, even if the businesses and operations of SCM and Hirsch are integrated successfully, the combined company may not fully realize the expected benefits of the Merger, including sales or growth opportunities that were anticipated, within the intended time frame, or at all. Further, because the businesses of SCM and Hirsch differ, the results of operations of the combined company and the market price of SCM common stock after the Merger may be affected by factors different from those existing prior to the Merger and may suffer as a result of the Merger. As a result, SCM and Hirsch cannot assure you that the combination of the businesses and operations of SCM with Hirsch will result in the realization of the full benefits anticipated from the Merger.

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Provisions of the Merger Agreement may deter alternative business combinations.

Restrictions in the Merger Agreement prohibit, in certain contexts, SCM and Hirsch from soliciting any acquisition proposal or offer for a merger or business combination with any other party, including a proposal that could be advantageous to the stockholders of SCM or shareholders of Hirsch when compared to the terms and conditions of the Merger described in this joint proxy statement/information statement and prospectus. In addition, if the Merger Agreement is terminated under certain specified circumstances relating to effecting a business combination with a different party, SCM or Hirsch may be required to pay the other a termination fee of $1.5 million, plus an amount equal to all out-of-pocket expenses (excluding the cost of employee time) incurred by the recipient party in connection with the Merger Agreement, the ancillary agreements, and the transactions contemplated thereby. These provisions may deter third parties from proposing or pursuing alternative business combinations that could result in greater value to SCM stockholders or Hirsch shareholders than the Merger.

There has been no public market for the Hirsch common stock and warrants to purchase Hirsch common stock, and the lack of a public market makes it extremely difficult to determine the fair market value of Hirsch .

The outstanding capital stock of Hirsch is privately held and is not traded in any public market. The lack of a public market makes it extremely difficult to determine the fair market value of Hirsch. The number of shares of SCM common stock and warrants to purchase SCM common stock to be issued to Hirsch shareholders was determined based on negotiations between the parties, and it may not be indicative of the price of the Hirsch common stock and warrants to purchase Hirsch common stock may have traded at if they were traded in a public market.

The amount of merger consideration is fixed and not subject to adjustment based on the market price of SCM common stock.

The merger consideration to be received by the holders of the shares of Hirsch common stock in the Merger includes shares of SCM common stock and warrants to purchase shares of SCM common stock. The Merger Agreement does not include an exchange ratio or adjustment mechanism based on the market price of SCM common stock for the determination of the amount of merger consideration that will be paid.

The value of the SCM common stock issued in the Merger will depend on its market price at the time of the Merger, as the exchange ratio for the Hirsch shares of common stock at the closing of the Merger is fixed.

Pursuant to the Merger Agreement, the exchange ratio used to determine the number of shares of SCM s common stock that Hirsch shareholders will receive is unaffected by the share price of SCM s common stock, as reflected on the NASDAQ Stock Market. Increases in the value of SCM common stock will result in a higher price being paid by SCM for Hirsch common stock and more value received by Hirsch shareholders in the Merger. Pursuant to the Merger Agreement, SCM will not have the right to terminate or renegotiate the Merger Agreement or to re-solicit proxies as a result of any increase in the value of SCM s outstanding common stock.

SCM common stock has historically traded at a very low volume. If substantial amounts of SCM common stock begin to trade on the open market following the end of the lock-up period, the price of SCM common stock may be materially and adversely affected.

If the current Hirsch shareholders sell, or it is perceived that they will sell, substantial amounts of SCM common stock in the public market after the lock-up lapses, the trading price of SCM common stock could be materially and adversely affected.

The market price of SCM common stock could decline as a result of the large number of shares that will become eligible for sale after consummation of the Merger.

If the Merger is consummated, the new shares of SCM common stock issued as merger consideration will become saleable beginning six months after the closing of the Merger and the warrants to purchases shares of SCM common stock will be exercisable for two years following the third anniversary of the effective time of the Merger. Consequently, after such periods, a substantial number of additional shares of SCM common stock will be eligible for resale in the public market. Current stockholders of SCM and former shareholders of Hirsch may not wish to continue to invest in the operations of the combined company after the Merger, or for other reasons, may wish to dispose of some or all of their interests in SCM after the Merger. Sales of substantial numbers of shares of both the newly issued and the existing SCM common stock in the public market following the Merger could adversely affect the market price of such shares.

The issuance of shares of SCM common stock to Hirsch shareholders in connection with the Merger will substantially reduce the percentage ownership of current SCM stockholders.

If the transaction is completed, SCM and Hirsch expect that, based on shares of Hirsch common stock outstanding as of February 10, 2009, and assuming no options or warrants to purchase shares of Hirsch common stock are exercised prior to close, SCM will pay, in the aggregate, approximately $14.1 million in cash and issue approximately 9,411,470 shares of SCM common stock, and warrants to purchase an additional 4,705,735 shares of SCM common stock, as consideration for the outstanding shares of Hirsch common stock. Following the Merger, current holders of Hirsch stock are expected to own approximately 37% of the shares of SCM common stock outstanding after the Merger and current holders of SCM stock are expected to own approximately 63% of the shares of SCM common stock outstanding after the Merger. SCM stockholders will continue to own their existing shares of SCM common stock, which will not be affected by the Merger, other than by the dilution resulting from the issuance of the merger consideration described above. In addition, based on the number of warrants to purchase shares of Hirsch common stock outstanding as of February 10, 2009 and excluding the warrants to be issued by SCM to Hirsch directors for service in 2008, SCM estimates that it will issue warrants to purchase an additional 164,618 shares of SCM common stock to the holders of Hirsch warrants to purchase Hirsch common stock, in connection with the Merger. Additionally, if all of the existing options and warrants to purchase shares of Hirsch common stock outstanding as of February 10, 2009 were exercised prior to the effective time of the Merger, SCM estimates that it will issue up to an additional $375,000 in cash, 250,000 shares of SCM common stock and warrants to purchase 125,000 shares of SCM common stock to current holders of Hirsch options as merger consideration. The issuance of the shares of SCM common stock and warrants to purchase SCM common stock described above will cause a significant reduction in the relative percentage interests of current SCM stockholders in earnings, voting, and liquidation, book and market value.

Hirsch s current shareholders will own a large percentage of the SCM common stock after consummation of the Merger, and will have significant influence over the outcome of corporate actions requiring stockholder approval; such shareholders priorities for SCM s business may be different from SCM s or its other stockholders.

After completion of the Merger, the former Hirsch shareholders will beneficially own approximately 37% of the outstanding SCM common stock and the current SCM stockholders will beneficially own approximately 63% of the SCM common stock. Accordingly, such former Hirsch shareholders will be able to significantly influence the outcome of any corporate transaction or other matter submitted to the SCM stockholders for approval, including the election of directors, any merger, consolidation or sale of all or substantially all of SCM s assets or any other significant corporate transaction, such that such former shareholders of Hirsch could delay or prevent a change of control of SCM, even if such a change of control would benefit SCM s other stockholders. The interests of such former Hirsch shareholders may differ from the interests of other stockholders.

Hirsch shareholders will no longer exercise 100% control over Hirsch.

The Hirsch shareholders currently own and control 100% of Hirsch. Upon the closing of the Merger, Hirsch shareholders will become SCM stockholders and, consequently, will no longer control Hirsch. Hirsch will be transformed into a wholly-owned subsidiary of SCM and will be controlled by SCM. The former Hirsch shareholders will own 37% of the outstanding SCM common stock after the Merger.

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The shares of SCM common stock to be received by Hirsch shareholders as a result of the Merger will have different rights from the shares of Hirsch common stock.

Upon completion of the Merger, Hirsch shareholders will become SCM stockholders and their rights as stockholders will be governed by SCM s certificate of incorporation and SCM s bylaws and Delaware law. The rights associated with Hirsch common stock are different from the rights associated with SCM common stock. Furthermore, the rights of SCM stockholders are governed by Delaware law, rather than California law. Delaware law differs from California law, including, among other things, the laws regarding appraisal rights and shareholder voting requirements. After the Merger, Hirsch shareholders will become SCM stockholders and will have rights that are different from those they have now as Hirsch shareholders. See the section entitled Comparison of Stockholders Rights and Corporate Governance Matters for a discussion of the different rights associated with SCM common stock and Hirsch common stock.

The SCM warrants to be issued in connection with the Merger will have limited transferability and will only be exercisable for a period of two years following the third anniversary of the closing.

The warrants to purchase shares of SCM common stock to be issued in connection with the Merger will not be freely transferable and will not be listed on the NASDAQ Stock Market or otherwise publicly traded. Further, the warrants cannot be exercised for a period of three years following the closing of the Merger and only have a five year term. There is no guarantee that the warrants will be in-the-money at any point during the two-year period of exercisability beginning on the third anniversary of the closing of the Merger. Consequently, the Hirsch shareholders will have to bear the economic risk of holding the warrants to purchase shares of SCM common stock during the three year period following the closing of the Merger.

The shares of SCM common stock issuable upon the exercise of the warrants to purchase SCM common stock in connection with the Merger will not be registered on the registration statement on Form S-4 of which this joint proxy statement/information statement is a part; if SCM is unable to comply with any applicable registration requirements prior to the time of exercise, SCM may not issue such shares.

The shares of SCM common stock issuable upon the exercise of the warrants to purchase SCM common stock in connection with the Merger will not be registered on the registration statement on Form S-4 of which this joint proxy statement/information statement is a part. Although SCM intends to comply with any applicable securities regulations and registration requirements for any such issuance prior to the time the warrants become exercisable according to their terms, if for any reason required registration is not available or effective, SCM will not be able to issue the shares of common stock upon any attempted exercise of warrants, until such time as applicable registration requirements are complied with or an exception therefrom is available.

Hirsch shareholders will bear the economic risk of holding SCM shares during the lock-up period.

The shares of SCM common stock to be issued to Hirsch shareholders in connection with the Merger will be subject to a lock-up that prohibits Hirsch shareholders from, among other restrictions, selling, offering to sell, pledging, granting any option, right or warrant for the sale, lending or otherwise disposing of or transferring any shares of SCM common stock received in connection with the Merger. Other than with respect to Lawrence W. Midland and his controlled affiliates, who have a longer lock-up under the stockholder agreement, this lock-up is effective for six months from the closing date for all of the shares of SCM common stock issued to Hirsch shareholders in connection with the Merger and is effective for nine months from the closing date for 50% of the shares. Consequently, the Hirsch shareholders will have to bear the economic risk of holding the shares of SCM common stock during the period of the lock-up.

Standstill agreements may delay or prevent a change in the management or acquisition of SCM after the Merger.

Several Hirsch shareholders, including certain members of Hirsch s board of directors, management and/or their respective affiliates, will be subject to a three-year standstill period to begin on the closing date of the Merger. During the standstill period, such parties agreed that, subject to limited circumstances, they would not take certain actions with respect to SCM and SCM common stock including, for example, proposing or entering into any acquisition transaction with a third party with respect to SCM, acquiring shares of SCM common stock that would result in such stockholder holding more than 10% of SCM s outstanding shares, or participating in the solicitation of proxies with respect to SCM securities or the securities of its subsidiaries. After the Merger, these agreements may delay or prevent a change in management of SCM and/or a later acquisition of SCM. These commitments may not be in the best interests of the other Hirsch shareholders.

The conditions to closing of the Merger may be waived by SCM or Hirsch without re-soliciting SCM stockholder or Hirsch shareholder approval of the Merger Agreement.

The Merger is subject to the satisfaction of the closing conditions set forth in the Merger Agreement. These conditions may be waived by SCM or Hirsch, subject to the agreement of the other party in specific cases. See The Merger Agreement Conditions to Completion of the Merger. In the event of a waiver of any condition, SCM and Hirsch will not be required to re-solicited the SCM stockholders or Hirsch shareholders, and may complete the transaction without seeking further stockholder or shareholder approval.

The date on which the Merger will close is uncertain.

The date on which the Merger will close depends on the satisfaction of the closing conditions set forth in the Merger Agreement, or the waiver of those conditions by the parties thereto. While SCM and Hirsch expect to complete the Merger in the first half of 2009, the completion date of the Merger might be later than expected because of unforeseen events.

If NASDAQ determines that the Merger will result in a change of control of SCM, SCM will be required to submit an initial listing application and meet all initial NASDAQ Stock Market inclusion criteria.

In connection with the proposed Merger, NASDAQ will review the terms and anticipated effect of the Merger to determine if a change of control will be deemed to occur under its rules. If NASDAQ determines that the Merger will result in a change of control of SCM, SCM will be required to submit an initial listing application and meet all initial NASDAQ Stock Market inclusion criteria as set forth in the Marketplace Rules of the NASDAQ Stock Market, and pay all applicable fees, before consummation of the Merger. If SCM and Hirsch are required to submit an initial listing application, NASDAQ s review of such application may take up to six to eight weeks, which could cause a delay in the Merger s consummation. There is also a risk that NASDAQ may not approve the initial listing application without substantial revision or delay, or at all.

If the conditions to the Merger are not met or waived, the Merger will not occur.

Even if the Merger is approved by the stockholders of SCM and the shareholders of Hirsch, specified conditions must be satisfied or waived to complete the Merger. These conditions are described in the section entitled The Merger Agreement Conditions to the Completion of the Merger of the joint proxy statement/information statement and prospectus and in the Merger Agreement attached hereto as *Annex A*. SCM and Hirsch cannot assure you that all of the conditions will be satisfied. If the conditions are not satisfied or waived, the Merger will not occur or will be delayed, which would result in the loss of some or all of the expected benefits of the Merger.

If the two remaining general partners of Secure Keyboards, Ltd. who are not currently a party to the letter of understanding do not consent to become a party to and be bound by the letter of understanding or consent to the Merger, a condition to SCM s obligation to close the merger will not have been satisfied.

In connection with the signing of the Merger Agreement, Robert J. Parsons and Lawrence W. Midland, as two of the four general partners of Secure Keyboards, Ltd. (Keyboards) delivered a letter of understanding to SCM, as amended and restated on January 30, 2009. Among other conditions, the obligation of SCM and Merger Subs to complete the Merger is subject to SCM s receipt or waiver of Keyboards consent to the Merger and waiver of any rights to notice pursuant to the terms of the settlement agreement (with such consent executed by each of its four respective general partners), and the consent of each of the other two general partners of Keyboards to become a party to and be bound by the letter of understanding delivered to SCM by Robert J. Parsons and Lawrence W. Midland.

On February 9, 2009 and February 11, 2009, counsel representing the two general partners of Keyboards who are not currently a party to the letter of understanding sent communications to SCM and Hirsch objecting to the letter of understanding, and indicating that the two general partners will not sign the letter of understanding. There can be no assurance that any disagreements relating to the letter of understanding or the settlement agreement can be resolved amicably between the parties. If the parties are not able to resolve the matter, a condition to SCM s obligation to close the Merger will not be satisfied and, if SCM decides not to waive this condition, the Merger will not be consummated.

If the Merger is not consummated, SCM may not be successful in its strategy to grow revenue and become profitable.

One of the components of SCM s growth strategy is to increase its revenues and operational scale through merger and acquisition activity. If the proposed Merger with Hirsch is not consummated, then SCM may not be able to increase its revenues or operational scale as rapidly as it has planned, or at all. If SCM is unable to increase its revenues or its operational scale, it may not be able to fully leverage its global infrastructure, or to pursue its other growth strategies effectively. Additionally, if the Merger is not consummated, then the financial and other resources that SCM has expended on the Merger may not be recoverable.

Hirsch s business may be negatively affected if the Merger is not consummated and Hirsch remains a stand-alone entity.

If the Merger is not completed for any reason, the consequences could adversely affect Hirsch s business and results of operations, including the following:

- Hirsch would not realize the benefits expected from becoming part of SCM, including the potentially enhanced financial and competitive position;

- Hirsch may be required to pay SCM a termination fee of $1.5 million, plus an amount equal to all out-of-pocket expenses (excluding the cost of employee time) incurred by SCM in connection with the Merger Agreement, the ancillary agreements, and the Merger;

- some costs related to the transaction, such as legal, accounting and financial advisor fees, must be paid even if the transaction is not completed;

- activities relating to the transaction and related uncertainties may divert Hirsch management s attention away from the day-to-day business and cause substantial disruptions among its employees and relationships with customers and business partners, thus detracting from its ability to grow revenue and minimize costs and possibly leading to a loss of revenue and market position that it may not be able to regain if the Merger does not occur; and

- Hirsch may be unable to locate another entity to merge with at a later date, or under terms as favorable as those in the Merger Agreement.

The Merger may not qualify as a reorganization, in which case the Merger may be a fully taxable transaction to Hirsch shareholders and warrant holders.

The parties have structured the Merger with the intent that it qualify as a reorganization under Section 368 of the Internal Revenue Code of 1986, as amended. If the Merger qualifies as a reorganization, Hirsch shareholders will recognize taxable income equal to the lesser of (i) the amount of cash received or (ii) the total gain on the transaction. However, the qualification of the Merger as a reorganization depends on numerous factors including whether Hirsch shareholders will receive a sufficient amount of SCM common stock to satisfy the continuity of interest test applicable to reorganizations under Section 368 of the Internal Revenue Code of 1986, as amended. Whether the Merger meets that test depends in large part on the value of the SCM common stock issued to Hirsch shareholders as compared to the value of all consideration issued to Hirsch shareholders. Based on an estimated valuation, the Merger should satisfy the continuity of interest test. If, however, the Internal Revenue Service were to challenge the valuations in the appraisal and successfully contend that the Merger failed to qualify as a reorganization, the Merger would be a fully taxable transaction to Hirsch shareholders and warrant holders. In such case, Hirsch shareholders and warrant holders would recognize gain or loss measured by the difference between the value of all consideration received by them in the Merger and their tax basis in their Hirsch common stock or warrants, as the case may be, surrendered in the Merger. For additional discussion of the tax treatment of the Merger, see the section entitled Material United States Income Tax Consequences of the Merger in this joint proxy statement/information statement and prospectus.

The SCM financial projections and the Hirsch financial projections are only estimates of future results and there is no assurance that actual results will not be different.

The SCM financial projections created by SCM and the Hirsch financial projections created by Hirsch are only estimates of possible future operating results and not guarantees of future performance. The future operating results of SCM and Hirsch and the combined company will be affected by numerous factors, including those discussed in this Risk Factors section of this joint proxy statement/information statement and prospectus. SCM stockholders and Hirsch shareholders should not assume that future operating results will conform to either of the SCM financial projections or the Hirsch financial projections. The actual operating results will likely differ from these financial projections.

Directors of Hirsch have interests in the transaction that may be different from, or in addition to, the interests of other Hirsch shareholders, which may influence their recommendation.

In considering the recommendation of Hirsch s board of directors, Hirsch shareholders should be aware that Hirsch s directors and executive officers have interests in the Merger and have arrangements that are different from, or in addition to, those of Hirsch shareholders generally. These interests and arrangements may create potential conflicts of interest. As a result of these interests, directors of Hirsch could be more likely to vote, and recommend to shareholders that they vote, to adopt the Merger Agreement and approve the Merger than if they did not hold these interests, and may have reasons for doing so that are not the same as the interests of other Hirsch shareholders. For a full description of the interests of directors and executive officers of Hirsch in the Merger, see The Merger Interests of Hirsch Directors and Executive Officers in the Merger.

SCM and Hirsch both have incurred and will incur significant expenses as a result of the Merger, which will reduce the amount of capital available to fund the business after the Merger.

SCM and Hirsch have incurred, and will continue to incur, significant expenses related to the Merger. These expenses include investment banking fees, legal fees, accounting fees, and printing and other costs. There may also be unanticipated costs related to the Merger. As a result, the combined company will have less capital available to fund its activities after the Merger.

After the Merger, SCM will continue to incur significant costs as a result of operating as a public company, and its management may be required to devote substantial time to compliance initiatives.

As a public company, SCM currently incurs significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the NASDAQ Stock Market, have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. SCM s management and other personnel devote a substantial amount of time and financial resources to these compliance initiatives.

After the Merger, SCM will be subject to all of the same obligations, and bringing Hirsch into compliance with the Sarbanes-Oxley Act will require significant expenditures. Complying with the Sarbanes-Oxley Act will require significant additional expenditures, place additional demands on SCM s management and may divert management s time and attention away from the day-to-day operations of the business. These additional obligations may also require SCM to hire additional personnel after the Merger. Hirsch is currently evaluating its internal controls systems in order to enable SCM to report on, and SCM s independent registered public accounting firm after the Merger to attest to, internal controls, as required by Section 404 of the Sarbanes-Oxley Act. Hirsch cannot be certain

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as to the timing of completion of the evaluation, testing and remediation actions or the impact of the same on the operations of SCM after the Merger. If, after the Merger, SCM fails to staff its accounting and finance function adequately, or maintain internal controls adequate to meet the demands that are placed upon it as a public company, including the requirements of the Sarbanes-Oxley Act, it may be unable to report its financial results accurately or in a timely manner and its business and stock price may suffer. The costs of being a public company, as well as diversion of management s time and attention, may have a material adverse effect on SCM s future business, financial condition and results of operations.

Qualified management, marketing, and sales personnel are difficult to locate, hire and train, and if SCM cannot attract and retain qualified personnel after the Merger, it will harm the ability of the business to grow.

SCM and Hirsch have each grown their businesses through the services of many people. The success of the combined company after the Merger depends, in part, on the continued service of key managerial, marketing and sales personnel. Competition for qualified management, technical, sales and marketing employees is intense. In addition, the personnel policies and practices of SCM and Hirsch may be less compatible than anticipated and some employees might leave the combined company after the Merger and go to work for competitors. SCM cannot assure you that it will be able to attract, retain and integrate employees to develop and continue its business and strategies after the Merger.

Completion of the Merger will require a significant amount of attention from Hirsch management and this diversion of management attention away from ongoing operations could adversely affect ongoing operations and business relationships.

Because completing the Merger requires a substantial amount of attention from Hirsch management, Hirsch management will divert a significant amount of its attention away from the day-to-day operations of the business. As a result, Hirsch s business relationships and ongoing operations may suffer during this period.

After the closing of the Merger, SCM faces risks of disagreements or litigation relating to the settlement agreement and letters of understanding, which may adversely affect SCM s results of operations.

Effective November 14, 1994, Hirsch entered into a settlement agreement with two limited partnerships, Secure Keyboards, Ltd. and Secure Networks, Ltd., pursuant to which Hirsch is obligated to pay a royalty of 4.25% on Hirsch revenues allocated to Secure Keyboards, Ltd. for the period from December 1, 1994 to December 31, 2020, and a royalty of 5.5% on Hirsch revenues allocated to Secure Networks, Ltd. for the period from December 1, 1994 to December 31, 2011. In connection with the entry into the Merger Agreement, on December 10, 2008, Robert J. Parsons and Lawrence W. Midland, as two of the four general partners of Secure Keyboards, Ltd., delivered a letter of understanding to SCM, as amended and restated January 30, 2009. In addition, Robert J. Parsons and Lawrence W. Midland, as the two general partners of Secure Networks, Ltd., delivered a substantially similar letter of understanding to SCM, also amended and restated January 30, 2009. Each letter of understanding contained certain clarifications of the SCM and Hirsch business relationship and its resulting impact on the companies respective revenue streams and on Keyboards or Networks revenue base, as applicable. Despite the letters of understandings attempt to clarify the revenue base subject to the royalty arrangement under the settlement agreement, there is a risk that future disagreements between SCM and Secure Keyboards, Ltd. and Secure Networks, Ltd. regarding the settlement agreement and/or the letters of understanding, including disagreements regarding the revenues subject to the royalty arrangement following the Merger, could result in litigation that may cause material harm to SCM s results of operations. See the sections entitled Certain Agreements Related to the Merger Settlement Agreement and Certain Agreements Related to the Merger Keyboards and Networks Letters of Understanding, for additional information about these agreements.

If the two remaining general partners of Secure Keyboards, Ltd. who are not currently a party to the letter of understanding do not consent to become a party to and be bound by the letter of understanding or consent to the Merger, and SCM decides to waive this closing condition and consummate the Merger

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without their consent, SCM and Hirsh may face litigation from these other Secure Keyboards, Ltd. general partners.

As discussed above, a condition to SCM s and Merger Subs obligations to complete the Merger is the receipt of Secure Keyboards, Ltd. s (Keyboards) consent to the Merger and waiver of any rights to notice pursuant to the terms of the settlement agreement (with such consent executed by each of its four respective general partners), and the consent of each of the other two general partners of Keyboards to become a party to and be bound by the letter of understanding delivered to SCM by Robert J. Parsons and Lawrence W. Midland. On February 9, 2009 and February 11, 2009, counsel representing the two general partners of Keyboards who are not currently a party to the letter of understanding sent communications to SCM and Hirsch objecting to the letter of understanding, and indicating that the two general partners will not sign the letter of understanding. If the parties are not able to resolve the matter, a condition to SCM s obligation to close the merger will not be satisfied. If SCM decides to waive this closing condition and the Merger is consummated without the consent of the two other general partners of Keyboards, SCM and Hirsch face the risk of litigation being brought by these two general partners including with respect to the amount of royalties to which Keyboards is entitled. There is no guarantee that SCM and Hirsch will prevail in any such litigation and SCM s results of operations may be materially harmed as a result of the litigation, in addition to diverting management s attention away from operations to attend to the litigation.

SCM may not have uncovered all the risks associated with the acquisition of Hirsch and a significant liability may be discovered after closing of the Merger.

There may be risks that SCM failed to discover in the course of performing its due diligence investigations related to the acquisition of Hirsch, which could result in significant liabilities arising after the consummation of the Merger. In connection with the acquisition of Hirsch, SCM will assume all of Hirsch s liabilities, both pre-existing and contingent, as a matter of law upon the exchange of all Hirsch shares of common stock. The Merger Agreement does not provide for SCM s indemnification by the former Hirsch shareholders against any of Hirsch s liabilities, should they arise or become known after the closing of the Merger. Furthermore, there is no escrow account or indemnity agreement protecting SCM in the event of any breach of Hirsch s representations and warranties in the Merger Agreement. While SCM tried to minimize risks by conducting due diligence that SCM deemed appropriate under the circumstances, SCM may not have identified all existing or potential risks. Any significant liability that may arise may harm SCM s business, financial condition, results of operations and prospects by requiring SCM to expend significant funds to satisfy such liability.

The representations and warranties contained in the Merger Agreement were made solely for purposes of the contract among SCM, Hirsch, and Merger Subs, and used as a tool for allocating risk among the parties, and therefore they may not accurately characterize the actual state of facts or conditions of SCM or Hirsch.

The representations and warranties contained in the Merger Agreement were made solely for purposes of the contract among SCM, Hirsch, and Merger Subs, and are used for the purpose of allocating risk among the parties, rather than establishing matters of facts. Because the representations and warranties may not accurately characterize the actual state of facts or conditions of SCM or Hirsch, no third party should rely upon the representations and warranties in the Merger Agreement as statements of factual information.

Provisions of the Merger Agreement regarding the payment of a termination fee by SCM to Hirsch or by Hirsch to SCM could negatively affect Hirsch s business operations or SCM s business operations if the Merger Agreement is terminated.

In the event the Merger is terminated by SCM or Hirsch in circumstances that obligate either of SCM or Hirsch, as the case may be, to pay the termination fee of $1.5 million, plus an amount equal to all out-of-pocket expenses (excluding the cost of employee time) incurred by either of SCM or Hirsch in connection with the Merger Agreement, the ancillary agreements, and the transactions contemplated thereby to the other party, the results of either of SCM s business operations or Hirsch s business operations, as the case may be, may be adversely impacted.

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SCM s and Hirsch s customers may seek to change the existing business relationship with SCM and Hirsch in reaction to the announcement of the Merger.

In response to the announcement of the Merger, existing or prospective customers of SCM and Hirsch may delay or defer their purchase of products or services or other decisions concerning SCM and Hirsch, or they may seek to change their existing business relationship. Any delay or deferral in product purchase or other decisions by customers could have a material adverse effect on SCM s and Hirsch s respective business, regardless of whether the transaction is ultimately completed.

Risks Relating to SCM s Business

SCM s business and results of operations are subject to numerous risks, uncertainties and other factors that you should be aware of, some of which are described below. The risks, uncertainties and other factors described in the following risk factors are not the only ones facing SCM. Additional risks, uncertainties and other factors not presently known to SCM or that SCM currently deems immaterial may also impair its business operations. Any of the risks, uncertainties and other factors could have a materially adverse effect on SCM s business, financial condition, results of operations, cash flows or product market share and could cause the trading price of its common stock to decline substantially.

SCM s stock price has been and is likely to remain volatile.

Over the past few years, the NASDAQ Stock Market and the Prime Standard of the Frankfurt Exchange have experienced significant price and volume fluctuations that have particularly affected the market prices of the stocks of technology companies. Volatility in SCM s stock price on either or both exchanges may result from a number of factors, including, among others:

- low volumes of trading activity in SCM s stock, particular in the U.S.;
- variations in SCM s or its competitors financial and/or operational results;
- the fluctuation in market value of comparable companies in any of SCM s markets;
- expected, perceived or announced relationships or transactions with third parties;
- comments and forecasts by securities analysts;
- trading patterns of SCM s stock on the NASDAQ Stock Market or Prime Standard of the Frankfurt Stock Exchange;
- the inclusion or removal of SCM s stock from market indices, such as groups of technology stocks or other indices;
- loss of key personnel;
- announcements of technological innovations or new products by SCM or its competitors;
- announcements of dispositions, organizational restructuring, headcount reductions, litigation or write-off of investments;

litigation developments; and

general market downturns.

In the past, companies that have experienced volatility in the market price of their stock have been the object of securities class action litigation. If SCM were the object of securities class action litigation, it could result in substantial costs and a diversion of SCM s management s attention and resources.

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SCM has incurred operating losses and may not achieve profitability.

SCM has a history of losses with an accumulated deficit of $198.1 million as of September 30, 2008. SCM may not be able to achieve expected results, including any guidance or outlook it may provide from time to time; SCM may continue to incur losses; and it may be unable to achieve or maintain profitability.

SCM s quarterly and annual operating results fluctuate.

SCM s quarterly and annual operating results have varied greatly in the past and will likely vary greatly in the future depending upon a number of factors. Many of these factors are beyond its control. SCM s revenues, gross profit and operating results may fluctuate significantly from quarter to quarter due to, among other things:

- business and economic conditions overall and in SCM s markets;
- the timing and amount of orders SCM receives from its customers that may be tied to budgetary cycles, seasonal demand, product plans or program roll-out schedules;
- cancellations or delays of customer product orders, or the loss of a significant customer;
- SCM s ability to obtain an adequate supply of components on a timely basis;
- poor quality in the supply of SCM s components;
- delays in the manufacture of SCM s products;
- the absence of significant backlog in SCM s business;
- SCM s inventory levels;
- SCM s customer and distributor inventory levels and product returns;
- competition;
- new product announcements or introductions;
- SCM s ability to develop, introduce and market new products and product enhancements on a timely basis, if at all;
- SCM s ability to successfully market and sell products into new geographic or market segments;
- the sales volume, product configuration and mix of products that SCM sells;
- technological changes in the markets for SCM s products;
- the rate of adoption of industry-wide standards;
- reductions in the average selling prices that SCM is able to charge due to competition or other factors;
- strategic acquisitions, sales and dispositions;

- fluctuations in the value of foreign currencies against the U.S. dollar;
- the timing and amount of marketing and research and development expenditures;
- loss of key personnel; and
- costs related to events such as dispositions, organizational restructuring, headcount reductions, litigation or write-off of investments.

Due to these and other factors, SCM s revenues may decrease from their current levels. Because a majority of its operating expenses are fixed, a small variation in SCM s revenues can cause significant variations in its operational results from quarter to quarter and its operating results may vary significantly in future periods. Therefore, SCM s historical results may not be a reliable indicator of its future performance.

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SCM is exposed to credit risk on its accounts receivable. This risk is heightened in times of economic weakness.

SCM distributes its products both through third-party resellers and directly to certain customers. A majority of SCM s outstanding trade receivables are not covered by collateral or credit insurance. SCM may not be able to monitor and limit its exposure to credit risk on its trade and non-trade receivables, and it may not be effective in limiting credit risk and avoiding losses. Additionally, if the global economy and regional economies continue to deteriorate, one or more of SCM s customers could experience a weakened financial condition and SCM could incur a material loss or losses as a result. Beginning in the third quarter of 2008, global economic uncertainty has resulted in a lower level of realization of amounts owed to SCM by some customers.

Disruption in the global financial markets may adversely impact the availability and cost of credit.

In the future, SCM may raise additional funds. SCM s ability to obtain financing for acquisitions or other general corporate and commercial purposes depends on its operating and financial performance and is also subject to prevailing economic conditions and to financial, business and other factors beyond its control. Recently, global credit markets and the financial services industry have been experiencing a period of unprecedented turmoil characterized by the bankruptcy, failure or sale of various financial institutions. As a result, an unprecedented level of intervention from the United States and other governments has been seen. As a result of such disruption, SCM s ability to raise capital may be severely restricted and the cost of raising capital through such markets or privately may increase significantly at a time when it would like, or need, to do so. Either of these events could have an impact on SCM s flexibility to pursue additional expansion or acquisition opportunities, make capital expenditures, or make another discretionary use of cash and could adversely impact its financial results. In any case, there can be no assurance that such funds, if available at all, can be obtained on terms reasonable to SCM. If SCM is able to obtain additional capital, the aggregate percentage ownership of its existing stockholders may be reduced. In addition, any new securities that SCM issues may have rights senior to those of its common stock.

Disruption in the global financial markets may adversely impact SCM s customers and customer spending patterns.

The current financial crisis may cause consumers, businesses and governments to defer purchases in response to tighter credit, decreased cash availability and declining consumer confidence. Accordingly, demand for SCM s products could decrease and differ materially from its current expectations. Further, some of SCM s customers may require substantial financing in order to fund their operations and make purchases from SCM. The inability of these customers to obtain sufficient credit to finance purchases of SCM s products and meet their payment obligations to SCM or possible insolvencies of SCM s customers could result in decreased customer demand, an impaired ability for SCM to collect on outstanding accounts receivable, significant delays in accounts receivable payments, and significant write-offs of accounts receivable, each of which could adversely impact SCM s financial results.

Disruption in the global financial markets may adversely impact SCM s suppliers.

SCM s ability to meet customers demands depends, in part, on its ability to obtain timely and adequate delivery of quality materials, parts and components or products from its suppliers. Certain of SCM s components are available only from a single source or limited sources. If certain key suppliers were to become capacity constrained or insolvent as a result of the financial crisis, it could result in a reduction or interruption in supplies or a significant increase in the price of supplies, each of which would adversely impact SCM s financial results. In addition, credit constraints at key suppliers could result in accelerated payment of accounts payable by SCM, impacting SCM s cash flow.

It is difficult to estimate operating results prior to the end of a quarter.

SCM does not typically maintain a significant level of backlog. As a result, revenue in any quarter depends on contracts entered into or orders booked and shipped in that quarter. Historically, many of SCM s customers have tended to make a significant portion of their purchases towards the end of the quarter, in part because they believe they are able to negotiate lower prices and more favorable terms. This trend makes predicting revenues difficult. The

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timing of closing larger orders increases the risk of quarter-to-quarter fluctuation in revenues. If orders forecasted for a specific group of customers for a particular quarter are not realized or revenues are not otherwise recognized in that quarter, SCM s operating results for that quarter could be materially adversely affected. In addition, from time to time, SCM may experience unexpected increases or decreases in demand for its products resulting from fluctuations in its customers budgets, purchasing patterns or deployment schedules. These occurrences are not always predictable and can have a significant impact on SCM s results in the period in which they occur.

SCM is subject to a lengthy sales cycle and additional delays could result in significant fluctuations in its quarterly operating results.

SCM s initial sales cycle for a new customer usually takes a minimum of six to nine months. During this sales cycle, SCM may expend substantial financial and managerial resources with no assurance that a sale will ultimately result. The length of a new customer s sales cycle depends on a number of factors, many of which SCM may not be able to control. These factors include the customer s product and technical requirements and the level of competition SCM faces for that customer s business. Any delays in the sales cycle for new customers could delay or reduce SCM s receipt of new revenue and could cause SCM to expend more resources to obtain new customer wins. If SCM is unsuccessful in managing sales cycles, its business could be adversely affected.

SCM s listing on both the NASDAQ Stock Market and the Prime Standard of the Frankfurt Stock Exchange exposes its stock price to additional risks of fluctuation.

SCM s common stock is listed both on the NASDAQ Stock Market and the Prime Standard of the Frankfurt Stock Exchange and most of the trading of SCM s stock is on the Prime Standard. Because of this, factors that would not otherwise affect a stock traded solely on the NASDAQ Stock Market may cause SCM s stock price to fluctuate. For example, European investors may react differently and more positively or negatively than investors in the United States to events such as acquisitions, dispositions, one-time charges and higher or lower than expected revenue or earnings announcements. A significant positive or negative reaction by investors in Europe to such events could cause SCM s stock price to increase or decrease significantly. The European economy and market conditions in general, or downturns on the Prime Standard specifically, regardless of the NASDAQ Stock Market conditions, also could negatively impact SCM s stock price.

A significant portion of SCM s sales typically come from a small number of customers, and the loss of one or more of these customers or variability in the timing of orders could negatively impact SCM s operating results.

SCM s products are generally targeted at original equipment manufacturers (OEM) customers in the consumer electronics, digital photo processing and computer industries, as well as the government sector, the financial sector and corporate enterprises. Sales to a relatively small number of customers historically have accounted for a significant percentage of SCM s revenues. Sales to SCM s top ten customers accounted for approximately 56% of revenue in the first nine months of 2008 and 61% of revenue in fiscal year 2007. SCM expects that sales of its products to a relatively small number of customers will continue to account for a high percentage of its total sales for the foreseeable future, particularly in its Digital Media and Connectivity business, where approximately two-thirds of SCM s business has typically been generated by two or three customers. The loss of a customer or reduction of orders from a significant customer, including those due to product performance issues, changes in customer buying patterns, or market, economic or competitive conditions in its market segments, could significantly lower SCM s revenues in any period and would increase its dependence on a smaller group of its remaining customers. For example, in the third quarter of 2008, sales of SCM s digital media readers were significantly lower than in previous quarters due to variability in the timing of orders from one large customer in this business. Variations in the timing or patterns of customer orders could also increase SCM s dependence on other customers in any particular period. Dependence on a small number of customers and variations in order levels period to period could result in decreased revenues, decreased margins, and/or inventory or receivables write-offs and otherwise harm SCM s business and operating results.

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Sales of SCM s products depend on the development of emerging applications in its target markets and on diversifying and expanding its customer base in new markets and geographic regions, and with new products.

SCM sells its products primarily to address emerging applications that have not yet reached a stage of mass adoption or deployment. For example, SCM sells its smart card readers for use in various smart card-based security programs in Europe, such as electronic driver s licenses, national IDs and e-passports, which are applications that are not yet widely implemented. In recent months, SCM also has focused on expanding sales of existing product lines into new geographic markets and diversifying and expanding its customer base. For example, recently SCM has added sales resources to target authentication programs in the government and enterprise sectors in Latin America and Asia, and has begun to target the photo kiosk markets in Europe and Asia. SCM also has initiated business development activities aimed at penetrating the worldwide financial services and enterprise markets with new contactless reader products. SCM introduced the first of these products in October 2008. Because the markets for SCM s products are still emerging, demand for SCM s products is subject to variability from period to period. There is no assurance that demand will become more predictable as additional smart card programs demonstrate success. If demand for products to enable smart card-based security applications does not develop further and grow sufficiently, SCM s revenue and gross profit margins could decline or fail to grow. SCM cannot predict the future growth rate, if any, or the size or composition of the market for any of its products. SCM s target markets have not consistently grown or developed as quickly as SCM has expected, and SCM has experienced delays in the development of new products designed to take advantage of new market opportunities. Since new target markets are still evolving, it is difficult to assess the competitive environment or the size of the market that may develop. The demand and market acceptance for SCM s products, as is common for new technologies, is subject to high levels of uncertainty and risk and may be influenced by various factors, including, but not limited to, the following:

- general economic conditions, for example the economic uncertainty caused by the current global banking crisis;
- SCM s ability to demonstrate to its potential customers and partners the value and benefits of new products;
- the ability of SCM s competitors to develop and market competitive solutions for emerging applications in its target markets and its ability to win business in advance of and against such competition;
- the adoption and/or continuation of industry or government regulations or policies requiring the use of products such as SCM s smart card readers;
- the timing of large scale security programs involving smart cards and related technology by governments, banks and enterprises;
- the ability of financial institutions, corporate enterprises, the U.S. government and other governments to agree on industry specifications and to develop and deploy security applications that will drive demand for reader solutions such as SCM s; and
- the ability of high capacity flash memory cards to drive demand for digital media readers, such as SCM s, that enable rapid transfer of large amounts of data, for example digital photographs.

A significant portion of SCM s revenue is dependent upon sales to government programs, which are impacted by uncertainty of timelines and budgetary allocations, as well as by delays in developing standards for information technology (IT) projects and in coordinating all aspects of large smart card-based security programs.

Large government programs are a primary target for SCM s Secure Authentication business, as smart card technology is increasingly used to enable applications ranging from paying taxes online, to citizen identification, to receiving health care. Historically, SCM has sold a significant proportion of its Secure Authentication products to the U.S. government for PC and network access by military and federal employees, and these sales have been an important component of its overall revenue. In recent periods, SCM has experienced a significant decrease in sales of its external smart card readers to the U.S. government, primarily due to weaker demand in this market as a result of ongoing project and budget delays and a movement by the U.S. government towards purchasing computer equipment with embedded reader capabilities. SCM continues to believe that it remains a leading supplier of smart card reader technology to the U.S. government market and that it is not losing share to competitors. However, lower overall market demand and the replacement of external smart card reader sales with sales of lower-priced interface chips for embedded readers have resulted in reduced revenue from the U.S. government sector, which SCM believes is not likely to consistently return to previous levels. SCM anticipates that a significant portion of its future revenues will come from government programs outside the U.S., such as national identity, e-government, e-health and others applications. SCM currently supplies smart card readers for various government programs in Europe and Asia and is actively targeting additional programs in these areas as well as in Latin America. SCM also has spent significant resources developing a range of e-health smart card terminals for the German government s electronic healthcard program. However, the timing of government smart card programs is not always certain and delays in program implementation are common. For example, while the German government has stated that it plans to distribute new electronic health cards to its citizens beginning in early 2009, and to put in place a corresponding network and card reader infrastructure during 2009, there have already been delays in this program and the actual timing of equipment and card deployments in the German e-health program remain uncertain. The continued delay of government projects for any reason could negatively impact SCM s sales.

Some of SCM s sales are made through distributors, and the loss of such distributors could result in decreased revenue.

SCM currently uses distributors to sell some of its products, primarily into markets or customers where the distributor may have closer relationships or greater access than SCM. Distribution arrangements are intended to benefit both SCM and the distributor, and may be long- or short-term relationships, depending on market conditions, competition in the marketplace and other factors. If SCM is unable to maintain effective distribution channels, there could be a reduction in the amount of product the Company is able to sell, and revenues could decrease.

SCM s products may have defects, which could damage its reputation, decrease market acceptance of its products, cause it to lose customers and revenue and result in costly litigation or liability.

Products such as SCM s smart card readers and digital media readers may contain defects for many reasons, including defective design or manufacture, defective material or software interoperability issues. Often, these defects are not detected until after the products have been shipped. If any of SCM s products contain defects or perceived defects or have reliability, quality or compatibility problems or perceived problems, SCM s reputation might be damaged significantly, it could lose or experience a delay in market acceptance of the affected product or products and it might be unable to retain existing customers or attract new customers. In addition, these defects could interrupt or delay sales or SCM s ability to recognize revenue for products shipped. In the event of an actual or perceived defect or other problem, SCM may need to invest significant capital, technical, managerial and other resources to investigate and correct the potential defect or problem and potentially divert these resources from other development efforts. If SCM is unable to provide a solution to the potential defect or problem that is acceptable to its customers, it may be required to incur substantial product recall, repair and replacement and even litigation costs. These costs could have a material adverse effect on SCM s business and operating results.

SCM provides warranties on certain product sales, which range from twelve to twenty-four months, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires SCM to make estimates of product return rates and expected costs to repair or to replace the products under warranty. SCM currently establishes warranty reserves based on historical warranty costs for each product line combined with liability estimates based on the prior twelve months sales activities. If actual return rates and/or repair and replacement costs differ significantly from SCM s estimates, adjustments to recognize additional cost of sales may be required in future periods.

In addition, because SCM s customers rely on its Secure Authentication products to prevent unauthorized access to PCs, networks or facilities, a malfunction of or design defect in its products (or even a perceived defect) could result in legal or warranty claims against SCM for damages resulting from security breaches. If such claims are adversely decided against SCM, the potential liability could be substantial and have a material adverse effect on SCM s business and operating results. Furthermore, the possible publicity associated with any such claim, whether or not decided against SCM, could adversely affect SCM s reputation. In addition, a well-publicized security breach involving smart card-based or other security systems could adversely affect the market s perception of products like SCM s in general, or SCM s products in particular, regardless of whether the breach is actual or attributable to SCM s products. Any of the foregoing events could cause demand for SCM s products to decline, which would cause its business and operating results to suffer.

If SCM does not accurately anticipate the correct mix of products that will be sold, it may be required to record charges related to excess inventories.

Due to the unpredictable nature of the demand for its products, SCM is required to place orders with its suppliers for components, finished products and services in advance of actual customer commitments to purchase these products. Significant unanticipated fluctuations in demand could result in costly excess production or inventories. In order to minimize the negative financial impact of excess production, SCM may be required to significantly reduce the sales price of the product to increase demand, which in turn could result in a reduction in the value of the original inventory purchase. If SCM were to determine that it could not utilize or sell this inventory, it may be required to write down the inventory s value, which it has done in the past. Writing down inventory or reducing product prices could adversely impact SCM s cost of revenues and financial condition.

SCM s business could suffer if its third-party manufacturers cannot meet production requirements.

SCM s products are manufactured outside the United States by contract manufacturers. SCM s reliance on foreign manufacturing poses a number of risks, including, but not limited to:

- difficulties in staffing;
- currency fluctuations;
- potentially adverse tax consequences;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- export controls;
- political and economic instability;
- lack of control over the manufacturing process and ultimately over the quality of SCM s products;
- late delivery of SCM s products, whether because of limited access to product components, transportation delays and interruptions, difficulties in staffing, or disruptions such as natural disasters;
- capacity limitations of SCM s manufacturers, particularly in the context of new large contracts for its products, whether because its manufacturers lack the required capacity or are unwilling to produce the quantities SCM desires; and
- obsolescence of SCM s hardware products at the end of the manufacturing cycle.

The use of contract manufacturing requires SCM to exercise strong planning and management in order to ensure that its products are manufactured on schedule, to correct specifications and to a high standard of quality. If any of SCM s contract manufacturers cannot meet its production requirements, it may be required to rely on other contract manufacturing sources or identify and qualify new contract manufacturers. SCM may be unable to identify or qualify new contract manufacturers in a timely manner or at all or with reasonable terms and these new manufacturers may not allocate sufficient capacity to SCM in order to meet SCM s requirements. Any significant delay in SCM s ability to obtain adequate supplies of its products from its current or alternative manufacturers would materially and adversely affect its business and operating results. In addition, if SCM is not successful at managing the contract manufacturing process, the quality of its products could be jeopardized or inventories could be too low or too high, which could result in damage to SCM s reputation with its customers and in the marketplace, as well as possible write-offs of excess inventory.

SCM has a limited number of suppliers of key components, and may experience difficulties in obtaining components for which there is significant demand.

SCM relies upon a limited number of suppliers for some key components of its products. For example, SCM currently utilizes the foundry services of external suppliers to produce its ASICs for smart cards readers, and uses chips and antenna components from third-party suppliers in its contactless smart card readers. SCM s reliance on a limited number of suppliers may expose it to various risks including, without limitation, an inadequate supply of components, price increases, late deliveries and poor component quality. In addition, some of the basic components SCM uses in its products, such as digital flash media, may at any time be in great demand. This could result in components not being available to SCM in a timely manner or at all, particularly if larger companies have ordered more significant volumes of those components, or in higher prices being charged for components. Disruption or termination of the supply of components or software used in SCM s products could delay shipments of these products. These delays could have a material adverse effect on SCM s business and operating results and could also damage relationships with current and prospective customers.

SCM s markets are highly competitive.

The markets for SCM s products are competitive and characterized by rapidly changing technology. SCM believes that the principal competitive factors affecting the markets for its products include:

- the extent to which products must support existing industry standards and provide interoperability;
- the extent to which standards are widely adopted and product interoperability is required within industry segments;
- the extent to which products are differentiated based on technical features, quality and reliability, ease of use, strength of distribution channels and price; and
- the ability of suppliers to develop new products quickly to satisfy new market and customer requirements.

SCM currently experiences competition from a number of companies in each of its target market segments and it believes that competition in its markets is likely to intensify as a result of anticipated increased demand for secure digital access products. SCM may not be successful in competing against offerings from other companies and could lose business as a result.

SCM also experiences indirect competition from certain of its customers who currently offer alternative products or are expected to introduce competitive products in the future. For example, SCM sells its products to many OEMs who incorporate its products into the