

SCM MICROSYSTEMS INC

Form S-4/A

February 12, 2009

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**As filed with the Securities and Exchange Commission on February 12, 2009**

**Registration No. 333-157067**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Amendment No. 1**

**to**

**Form S-4**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**SCM MICROSYSTEMS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**3577**

*(Primary Standard Industrial  
Classification Code Number)*

**77-0444317**

*(I.R.S. Employer  
Identification No.)*

**Oskar-Messter-Str. 13, 85737 Ismaning, Germany**

**+ 49 89 95 95 5000**

*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive  
Offices)*

**David Holmes**

**41740 Christy Street**

**Fremont, California 94538**

**(510) 360-2300**

*(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)*

***Copies to:***

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**Irvine, California 92614**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement and the satisfaction or waiver of all other conditions to the merger described in the joint proxy statement/information statement and prospectus.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered(1)	Amount to be Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(6)
Common Stock, \$0.001 par value per share	9,661,470(2)	N/A	\$ 25,796,124(3)	\$ 1013.79
Warrants to Purchase Common Stock	4,945,353(4)	N/A	\$ 1,425,250(5)	\$ 56.01

- (1) This registration statement relates to common stock, \$0.001 par value per share, and warrants to purchase shares of common stock of SCM Microsystems, Inc., a Delaware corporation ( SCM ), in connection with the proposed acquisition of Hirsch Electronics Corporation, a California corporation ( Hirsch ), by SCM.
- (2) The amount of SCM common stock to be registered has been determined based on the estimated maximum number of shares to be issued in the merger, not including those issuable upon exercise of the warrants to purchase common stock being registered hereunder, calculated based on the number of issued and outstanding shares of Hirsch common stock, warrants and options exercisable to purchase shares of Hirsch common stock as of February 10, 2009.
- (3) Estimated solely for purposes of calculation of the registration fee in accordance with Rule 457(c) of the Securities Act of 1933, as amended, based upon the average of the high and low price per share of the SCM common stock as reported on the NASDAQ Stock Market on February 11, 2009.
- (4) The amount of SCM warrants to be registered has been determined based on the estimated maximum number of warrants to be issued in the merger calculated based on the number of issued and outstanding shares of Hirsch common stock, options and warrants exercisable to purchase shares of Hirsch common stock as of February 10, 2009.
- (5) Estimated solely for purposes of calculation of the registration fee in accordance with Rule 457(c) of the Securities Act of 1933, as amended, based upon the Black-Scholes valuation model using the 30 day volume weighted average price per share of the SCM common stock as reported on the NASDAQ Stock Market ending on February 11, 2009.
- (6) In accordance with Rule 457(b) of the Securities Act of 1933, as amended, the filing fee under this Amendment No. 1 to Form S-4 is reduced by fees paid by SCM with respect to this transaction upon the first filing of Registration Statement 333-157067 on February 2, 2009.

**The Registrant hereby further amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in the proxy statement/prospectus/information statement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The proxy statement/prospectus/information statement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**JOINT PROXY STATEMENT/INFORMATION STATEMENT AND PROSPECTUS**

**SUBJECT TO COMPLETION, DATED FEBRUARY 12, 2009**

**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 Frankfurt Stock Exchange under the symbol SMY. On February 11, 2009, the last 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 [        ], 2009, and is first being mailed to SCM stockholders and Hirsch shareholders on or about [        ], 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](mailto: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](http://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

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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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**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 receive \$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  
Dr. Hans Liebler  
Felix Marx  
Lawrence W. Midland

Director  
Director  
Chief Executive Officer and Director  
Executive Vice President, President of the Surviving Subsidiary  
and Director  
Chief Financial Officer and Director  
Director

Stephan Rohaly  
Simon Turner

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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:

<b>Name</b>	<b>Title</b>
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:

<b>Name</b>	<b>Title</b>
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.

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**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](mailto: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

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**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

SCM Microsystems GmbH  
Oskar-Messter-Straße 13  
85737 Ismaning, Germany

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

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.

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.

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**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



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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.

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**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 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;

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.

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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 on the 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).

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

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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



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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 of 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.

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.

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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 increase 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 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

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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

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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 Hultzsich, 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 Stockholders and Hirsch Electronics

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



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**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 purchase 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

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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

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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-solicit 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

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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

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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

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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

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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.

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***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 their offerings or who resell its products in order to provide a more complete solution to their customers. If SCM's OEM customers develop their own products to replace SCM's products, this would result in a loss of sales to those customers, as well as increased competition for SCM's products in the marketplace. In addition, these OEM customers could cancel outstanding orders for SCM's products, which could cause it to write down inventory already designated for those customers. SCM may in the future face competition from these and other parties that develop digital data security products based upon approaches similar to or different from those employed by SCM. In addition, the market for digital information security and access control products may ultimately be dominated by approaches other than the approach marketed by SCM.

Many of SCM's current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than SCM does. As a result, SCM's competitors may be able to respond more quickly to new or emerging technologies or standards and to changes in customer requirements. SCM's competitors may also be able to

devote greater resources to the development, promotion and sale of products and may be able to deliver competitive products at a lower end user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of SCM's prospective customers. Therefore, new competitors, or alliances among competitors, may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share.

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***SCM may have to take back unsold inventory from its customers.***

If demand is less than anticipated, customers may ask that SCM accept returned products that they do not believe they can sell. SCM does not have a policy relating to product returns; *however*, SCM may determine that it is in its best interest to accept returns in order to maintain good relations with its customers. If SCM were to accept product returns, it may be required to take additional inventory reserves to reflect the decreased market value of slow-selling returned inventory, even if the products are in good working order.

***Changes in tax laws or the interpretation thereof, adverse tax audits and other tax matters may adversely affect SCM's future results.***

A number of factors impact SCM's tax position, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of SCM's deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes; and
- the repatriation of non-U.S. earnings for which SCM has not previously provided for U.S. taxes.

Each of these factors makes it more difficult for SCM to project or achieve expected tax results. An increase or decrease in SCM's tax liabilities due to these or other factors could adversely affect its financial results in future periods.

***Large stock holdings outside the U.S. make it difficult for SCM to achieve a quorum at stockholder meetings and this could restrict, delay or prevent its ability to implement future corporate actions, as well as have other effects, such as the delisting of SCM's stock from the NASDAQ Stock Market.***

To achieve a quorum at a regular or special stockholder meeting, at least one-third of all shares of SCM's stock entitled to vote must be present at such a meeting in person or by proxy. In addition, certain actions, including the approval of a significant transaction, may require approval of a majority of the total number of SCM's shares then outstanding. As of February 11, 2009, the record date for SCM's special meeting, approximately 50% of SCM's shares outstanding were held by retail stockholders in Germany, through German banks and brokers. Securities regulations and business customs in Germany result in very few German banks and brokers providing SCM's proxy materials to its stockholders in Germany and in very few German stockholders voting their shares even when they do receive such materials. In addition, the absence of a routine broker non-vote in Germany typically requires the stockholder to return the proxy card to SCM before the votes it represents can be counted for purposes of establishing a quorum.

As a result, it is often difficult and costly for SCM, and requires considerable management resources, to achieve a quorum at annual and special meetings of its stockholders. If SCM is unable to achieve a quorum or the required approval of a matter at a future annual or special meeting of its stockholders, corporate actions requiring stockholder approval could be restricted, delayed or even prevented. These include, but are not limited to, actions and transactions that may be of benefit to SCM's stockholders, part of its strategic plan or necessary for its corporate governance, such as the Merger and related actions and corporate mergers, acquisitions, dispositions, sales or reorganizations,

financings, stock incentive plans or the election of directors. Even if SCM is able to achieve a quorum for a particular meeting, some of these actions or transactions require the approval of a majority of the total number of SCM's shares then outstanding, and it may not be successful in obtaining such approval. The failure to hold an annual meeting of stockholders may also result in SCM being out of compliance with Delaware law and the qualitative listing requirements of the NASDAQ Stock Market, each of which requires SCM to hold an annual meeting of its stockholders. SCM's inability to obtain a quorum at any such meeting may not be an adequate excuse for such failure. Lack of compliance with the qualitative listing requirements of the NASDAQ Stock Market could result in the delisting of SCM's common stock on the NASDAQ Stock Market. Either of these events would divert

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management's attention from SCM's operations and would likely be costly and could also have an adverse effect on the trading price of the SCM's common stock.

***One of SCM's directors is a partner in the largest shareholder of SCM, and both of them have significant influence over the outcome of corporate actions requiring board and shareholder approval, respectively; however, the shareholder's priorities for SCM's business may be different from SCM's or its other shareholders.***

As of February 11, 2009, Lincoln Vale European Partners (Lincoln Vale) holds nearly 10% of the outstanding shares of SCM's common stock. Dr. Hans Liebler, one of SCM's directors, is a partner of Lincoln Vale and may also be deemed to beneficially own, either directly or indirectly through limited partnerships, the shares invested by Lincoln Vale in SCM. Accordingly, Dr. Liebler and/or Lincoln Vale could have significant influence over the outcome of corporate actions requiring board and shareholder approval, respectively, 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. In addition, Dr. Liebler and/or Lincoln Vale could delay or prevent a change of control of SCM, even if such a change of control would benefit SCM's other shareholders. SCM cannot assure you that Lincoln Vale's objectives are aligned with those of the other shareholders.

***SCM has global operations, which require significant financial, managerial and administrative resources.***

SCM's business model includes the management of separate product lines that address disparate market opportunities that are geographically dispersed. While there is some shared technology across its products, each product line requires significant research and development effort to address the evolving needs of SCM's customers and markets. To support its development and sales efforts, SCM maintains company offices and business operations in several locations around the world including Germany, Hong Kong, India, Japan and the United States. SCM also must manage contract manufacturers in several different countries, including, China and Singapore. Managing its various development, sales, administrative and manufacturing operations places a significant burden on SCM's financial systems and has resulted in a level of operational spending that is disproportionately high compared to SCM's current revenue levels.

Operating in diverse geographic locations also imposes significant burdens on SCM's managerial resources. In particular, SCM's management must:

- divert a significant amount of time and energy to manage employees and contractors from diverse cultural backgrounds and who speak different languages;

- travel between SCM's different company offices;

- maintain sufficient internal financial controls in multiple geographic locations that may have different control environments;

- manage different product lines for different markets;

- manage SCM's supply and distribution channels across different countries and business practices; and

- coordinate these efforts to produce an integrated business effort, focus and vision.

A failure to effectively manage our operations globally could have a material adverse effect on our business and operating results.

***SCM conducts a significant portion of its operations outside the United States. Economic, political, regulatory and other risks associated with international sales and operations could have an adverse effect on SCM's results of operations.***

In addition to its corporate headquarters being located in Germany, SCM conducts a substantial portion of its business in Europe and Asia. Approximately 63% of SCM's revenue for the nine months ended September 30, 2008 and approximately 49% of its revenue for the year ended December 31, 2007 was derived from customers located outside the United States. Because a significant number of its principal customers are located in other countries,

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SCM anticipates that international sales will continue to account for a substantial portion of its revenues. As a result, a significant portion of SCM's sales and operations may continue to be subject to risks associated with foreign operations, any of which could impact its sales and/or operational performance. These risks include, but are not limited to:

changes in foreign currency exchange rates;

changes in a specific country's or region's political or economic conditions and stability, particularly in emerging markets;

unexpected changes in foreign laws and regulatory requirements;

potentially adverse tax consequences;

longer accounts receivable collection cycles;

difficulty in managing widespread sales and manufacturing operations; and

less effective protection of intellectual property.

***Fluctuations in the valuation of foreign currencies impact costs and/or revenues SCM discloses in U.S. dollars, and could result in foreign currency losses.***

A significant portion of SCM's business is conducted in foreign currencies, principally the Euro. Fluctuations in the value of foreign currencies relative to the U.S. dollar will continue to cause currency exchange gains and losses. If a significant portion of operating expenses are incurred in a foreign currency such as the Euro, and revenues are generated in U.S. dollars, exchange rate fluctuations might have a positive or negative net financial impact on these transactions, depending on whether the U.S. dollar devalues or revalues compared to the Euro. For example, excluding a one-time severance payment made to its former chief executive officer in the second quarter of 2007, SCM's general and administrative expenses in the first half of 2008 were higher than in the same period of the previous year, primarily due to the devaluation of the dollar as compared with the Euro. In addition, the valuation of current assets and liabilities that are denominated in a currency other than the functional currency can result in currency exchange gains and losses. For example when an SCM subsidiary has the Euro as the functional currency, and this subsidiary has a receivable in U.S. dollars, a devaluation of the U.S. dollar against the Euro of 10% would result in a foreign exchange loss of the reporting entity of 10% of the value of the underlying U.S. dollar receivable. SCM cannot predict the effect of exchange rate fluctuations upon future quarterly and annual operating results. The effect of currency exchange rate changes may increase or decrease SCM's costs and/or revenues in any given quarter, and it may experience currency losses in the future. To date, SCM has not adopted a hedging program to protect it from risks associated with foreign currency fluctuations.

***SCM's key personnel and directors are critical to its business, and such key personnel may not remain with SCM in the future.***

SCM depends on the continued employment of its senior executive officers and other key management and technical personnel. If any of its key personnel were to leave and not be replaced with sufficiently qualified and experienced personnel, SCM's business could be adversely affected. In particular, SCM's current strategy to penetrate the market for contactless payment solutions is heavily dependent on the vision, leadership and experience of its chief executive officer, Felix Marx.



SCM also believes that its future success will depend in large part on its ability to attract and retain highly qualified technical and management personnel. However, competition for such personnel is intense. SCM may not be able to retain its key technical and management employees or to attract, assimilate or retain other highly qualified technical and management personnel in the future.

Likewise, as a small, dual-traded company, SCM is challenged to identify, attract and retain experienced professionals with diverse skills and backgrounds who are qualified and willing to serve on its board of directors. The increased burden of regulatory compliance under the Sarbanes-Oxley Act of 2002 creates additional liability and exposure for directors, and financial losses in SCM's business and lack of growth in its stock price make it

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difficult for SCM to offer attractive director compensation packages. If SCM is not able to attract and retain qualified board members, its ability to practice a high level of corporate governance could be impaired.

***SCM faces risks associated with strategic transactions.***

A component of SCM's ongoing business strategy is to seek to buy businesses, products and technologies that complement or augment its existing businesses, products and technologies. SCM has in the past acquired or made, and from time to time in the future may acquire or make, investments in companies, products and technologies that it believes are complementary to its existing businesses, products and technologies. Any future acquisition could expose SCM to significant risks, including, without limitation, the use of its limited cash balances or potentially dilutive stock offerings to fund such acquisitions; costs of any necessary financing, which may not be available on reasonable terms or at all; accounting charges SCM might incur in connection with such acquisitions; the difficulty and expense of integrating personnel, technologies, customer, supplier and distributor relationships, marketing efforts and facilities acquired through acquisitions; integrating internal controls over financial reporting; discovering and correcting deficiencies in internal controls and other regulatory compliance, data adequacy and integrity, product quality and product liabilities; diversion of management resources; failure to realize anticipated benefits; costly fees for legal and transaction-related services; and the unanticipated assumption of liabilities. Any of the foregoing could have a material adverse effect on SCM's financial condition and results of operations. SCM may not be successful with any such acquisition.

SCM's business strategy also contemplates divesting portions of its business from time to time, if and when it believes it would be able to realize greater value for its stockholders in so doing. SCM has in the past sold, and may from time to time in the future sell, all or one or more portions of its business. Any divestiture or disposition could expose SCM to significant risks, including, without limitation, costly fees for legal and transaction-related services; diversion of management resources; loss of key personnel; and reduction in revenue. Further, SCM may be required to retain or indemnify the buyer against certain liabilities and obligations in connection with any such divestiture or disposition and it may also become subject to third-party claims arising out of such divestiture or disposition. In addition, SCM may not achieve the expected price in a divestiture transaction. Failure to overcome these risks could have a material adverse effect on SCM's financial condition and results of operations.

***SCM may be exposed to risks of intellectual property infringement by third parties.***

SCM's success depends significantly upon its proprietary technology. SCM currently relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect its proprietary rights, which afford only limited protection. SCM may not be successful in protecting its proprietary technology through patents, it is possible that no new patents will be issued, that its proprietary products or technologies are not patentable or that any issued patent will fail to provide SCM with any competitive advantages.

There has been a great deal of litigation in the technology industry regarding intellectual property rights, and from time to time SCM may be required to use litigation to protect its proprietary technology. This may result in SCM incurring substantial costs and it may not be successful in any such litigation.

Despite SCM's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of its products or to use its proprietary information and software without authorization. In addition, the laws of some foreign countries do not protect proprietary and intellectual property rights to the same extent as do the laws of the United States. Because many of its products are sold and a significant portion of its business is conducted outside the United States, SCM's exposure to intellectual property risks may be higher. SCM's means of protecting its proprietary and intellectual property rights may not be adequate. There is a risk that SCM's competitors will independently develop similar technology or duplicate its products or design around patents or other intellectual property rights. If SCM is

unsuccessful in protecting its intellectual property or its products or technologies are duplicated by others, its business could be harmed.

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***Changes to financial accounting standards may affect SCM's results of operations and cause SCM to change its business practices.***

SCM prepares its financial statements to conform with U.S. GAAP. These accounting principles are subject to interpretation by the Financial Standards Accounting Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various other bodies formed to interpret and create appropriate accounting rules and policies. A change in those rules or policies could have a significant effect on SCM's reported results and may affect its reporting of transactions completed before a change is announced. Any changes in accounting rules or policies in the future may result in significant accounting charges.

***SCM faces costs and risks associated with maintaining effective internal controls over financial reporting, and if it fails to achieve and maintain adequate internal controls over financial reporting, its business, results of operations and financial condition, and investors' confidence in SCM could be materially affected.***

Under Sections 302 and 404 of the Sarbanes-Oxley Act of 2002, SCM's management is required to make certain assessments and certifications regarding its disclosure controls and internal controls over financial reporting. SCM has dedicated, and expects to continue to dedicate, significant management, financial and other resources in connection with its compliance with Section 404 of the Sarbanes-Oxley Act. The process of maintaining and evaluating the effectiveness of these controls is expensive, time-consuming and requires significant attention from SCM's management and staff. During the course of its evaluation, SCM may identify areas requiring improvement and may be required to design enhanced processes and controls to address issues identified through this review. This could result in significant delays and costs to SCM and require it to divert substantial resources, including management time from other activities. SCM has found a material weakness in its internal controls in the past and cannot be certain in the future that it will be able to report that its controls are without material weakness or to complete its evaluation of those controls in a timely fashion.

If SCM fails to maintain an effective system of disclosure controls or internal control over financial reporting, it may not be able to rely on the integrity of its financial results, which could result in inaccurate or late reporting of its financial results and investigation by regulatory authorities. If SCM fails to achieve and maintain adequate internal controls, the financial position of its business could be harmed; current and potential future shareholders could lose confidence in SCM and/or its reported financial results, which may cause a negative effect on the trading price of its common stock; and SCM could be exposed to litigation or regulatory proceedings, which may be costly or divert management attention.

In addition, all internal control systems, no matter how well designed and operated, can only provide reasonable assurance that the objectives of the control system are met. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within SCM have been or will be detected. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Any failure of SCM's internal control systems to be effective could adversely affect its business.

***SCM faces risks from litigation.***

From time to time, SCM may be subject to litigation, which could include, among other things, claims regarding infringement of the intellectual property rights of third parties, product defects, employment-related claims, and claims related to acquisitions, dispositions or restructurings. Any such claims or litigation may be time-consuming and costly, divert management resources, cause product shipment delays, require SCM to redesign its products, require SCM to accept returns of products and to write off inventory, or have other adverse effects on its business. Any of the

foregoing could have a material adverse effect on SCM's results of operations and could require SCM to pay significant monetary damages.

SCM expects the likelihood of intellectual property infringement and misappropriation claims may increase as the number of products and competitors in its markets grows and as it increasingly incorporates third-party technology into its products. As a result of infringement claims, SCM could be required to license intellectual

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property from a third-party or redesign its products. Licenses may not be offered when needed or on acceptable terms. If SCM does obtain licenses from third parties, it may be required to pay license fees or royalty payments or it may be required to license some of its intellectual property to others in return for such licenses. If SCM is unable to obtain a license that is necessary for it or its third-party manufacturers to manufacture its allegedly infringing products, SCM could be required to suspend the manufacture of products or stop its suppliers from using processes that may infringe the rights of third parties. SCM also may be unsuccessful in redesigning its products. SCM's suppliers and customers may be subject to infringement claims based on intellectual property included in its products. SCM historically has agreed to indemnify its suppliers and customers for patent infringement claims relating to its products. The scope of this indemnity varies, but may, in some instances, include indemnification for damages and expenses, including attorney's fees. SCM may periodically engage in litigation as a result of these indemnification obligations. SCM's insurance policies exclude coverage for third-party claims for patent infringement.

***Provisions in SCM's agreements, charter documents, Delaware law and SCM's rights plan may delay or prevent the acquisition of SCM by another company, which could decrease the value of your shares.***

SCM's certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire SCM or enter into a material transaction with SCM without the consent of SCM's board of directors. These provisions include a classified board of directors and limitations on actions by SCM's stockholders by written consent. Delaware law imposes some restrictions on mergers and other business combinations between SCM and any holder of 15% or more of SCM's outstanding common stock. In addition, SCM's board of directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

SCM has adopted a stockholder rights plan. The triggering and exercise of the rights would cause substantial dilution to a person or group that attempts to acquire SCM on terms or in a manner not approved by SCM's board of directors, except pursuant to an offer conditioned upon redemption of the rights. While the rights are not intended to prevent a takeover of SCM, they may have the effect of rendering more difficult or discouraging an acquisition of SCM that was deemed to be undesirable by its board of directors.

These provisions will apply even if the offer were to be considered adequate by some of SCM's stockholders. Because these provisions may be deemed to discourage a change of control, they may delay or prevent the acquisition of SCM, which could decrease the value of SCM's common stock.

***You may experience dilution of your ownership interests due to the future issuance of additional shares of SCM's stock, and future sales of shares of its common stock could have an adverse effect on SCM's stock price.***

From time to time, in the future SCM may issue previously authorized and unissued securities, resulting in the dilution of the ownership interests of its current stockholders. SCM currently is authorized to issue up to 40,000,000 shares of common stock. As of February 11, 2009, 15,743,515 shares of common stock were outstanding.

In 2007, SCM's board of directors and its stockholders approved SCM's 2007 Stock Option Plan, under which options to purchase 1.5 million shares of SCM common stock may be granted. As of September 30, 2008, an aggregate of approximately 3.1 million shares of common stock was reserved for future issuance under SCM's stock option plans, of which 1.9 million shares were subject to outstanding options. SCM may issue additional shares of its common stock or other securities that are convertible into or exercisable for shares of its common stock in connection with the hiring of personnel, future acquisitions, future private placements, or future public offerings of its securities for capital raising or for other business purposes. If SCM issues additional securities, the aggregate percentage ownership of its existing stockholders will be reduced. In addition, any new securities that SCM issues may have rights senior to those of its common stock.

In addition, the potential issuance of additional shares of its common stock or preferred stock, or the perception that such issuances could occur, may create downward pressure on the trading price of SCM's common stock.

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**Risks Relating to Hirsch's Business**

*Hirsch'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 Hirsch. Additional risks, uncertainties and other factors not presently known to Hirsch or that Hirsch currently deems immaterial may also impair its business operations. Any of the risks, uncertainties and other factors could have a materially adverse effect on Hirsch's business, financial condition, results of operations, cash flows or product market share.*

***Hirsch's business could be materially adversely affected as a result of conditions in the general economy and financial markets.***

Hirsch is subject to the effects of general economic and financial market conditions. 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, Hirsch'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. If these economic conditions further deteriorate, the Hirsch business, results of operations or financial condition could be materially adversely affected.

***The Hirsch business could be materially adversely affected as a result of adverse conditions in the commercial construction and renovation markets.***

As part of its focus on commercial and industrial markets, Hirsch is subject to the effects of conditions in the commercial construction and renovation sector. If these conditions deteriorate further, resulting in a significant decline in new commercial construction or a significant decline in renovation projects, the Hirsch business, results of operations or financial condition could be materially adversely affected.

***The markets Hirsch serves are highly competitive and it may be unable to compete effectively.***

Hirsch competes with many other companies that manufacture and market security equipment. Some of these competitors may have substantially greater financial, engineering, manufacturing, sales, marketing, channel and partner resources than Hirsch. Hirsch competes primarily on the basis of its reputation, product features, product reliability, breadth of product line, ability to attract and work with other companies as strategic partners, ability to customize middleware and develop user interfaces to meet specific customer needs, interoperability with other systems, databases and devices, ability to offer end-to-end identity and access management, and training services. The inability of Hirsch to compete with respect to any one or more of the aforementioned factors could have an adverse impact on Hirsch's business.

***If the security management system market does not experience significant growth or if Hirsch's products do not achieve broad acceptance both domestically and internationally, it will not be able to achieve its anticipated level of growth.***

Hirsch's revenues are derived from sales of its security solutions. Hirsch cannot accurately predict the future growth rate or the size of the security management system market. The expansion of the security management system market and the market for Hirsch's security solutions depends on a number of factors, such as:



the cost, performance and reliability of its solutions, and the products and services offered by Hirsch's competitors;

customers' perceptions regarding the benefits of and need for security solutions;

the development and growth of demand for security solutions in new markets;

public perceptions regarding the intrusiveness of identity-related solutions and the manner in which organizations use the information collected;

public perceptions regarding the confidentiality of private information;

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proposed or enacted legislation related to privacy of information;

customers' satisfaction with security products; and

marketing efforts and publicity regarding security products.

Even if the security management systems market continues to grow, Hirsch's solutions may not adequately address market requirements and may not gain market acceptance. If security products generally, or Hirsch's solutions specifically, do not gain wide market acceptance, Hirsch may not be able to achieve its anticipated level of growth and its revenues and results of operations would suffer.

***The security management systems market is characterized by rapid technological change and evolving industry standards, which could render Hirsch's existing solutions obsolete or could result in increased research and development expenditures or failure to attract or retain customers.***

Hirsch's future success will depend upon Hirsch's ability to develop and introduce a variety of new capabilities and enhancements to its existing solutions in order to address the changing and sophisticated needs of the marketplace. Frequently, technical development programs in the security industry require assessments to be made of the future direction of technology, which is inherently difficult to predict.

A significant portion of Hirsch's revenues result from the sale of access control panels that include certain design elements that are more than a decade old. These controllers are typically used in a network architecture that may become outdated or obsolete. Nearly all Hirsch's revenue comes from physical security products, and that product line alone may be too narrow to meet future market demands. Hirsch's failure to develop, manufacture, launch and sell next-generation security products and architectures for both physical and logical security could significantly affect its financial performance.

Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause customers to forego purchases of Hirsch's solutions and purchase its competitors' solutions. Hirsch may not have adequate resources available to it or may not adequately keep pace with appropriate requirements in order to effectively compete in the marketplace.

***If Hirsch 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 Hirsch's products, it is required to place orders with Hirsch's 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, Hirsch 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 Hirsch was to determine that it could not utilize or sell this inventory, it may be required to write down its value. Writing down inventory or reducing product prices could adversely impact its cost of revenues and financial condition.

***Hirsch's business could be adversely affected by changes in laws or regulations pertaining to security.***

The U.S. federal government, contractors to the federal government and certain industries in the public sector currently fall, or may in the future fall, under particular regulations pertaining to security. Some of the laws, regulations, certifications or requirements that may stimulate new security systems sales include the following:

Homeland Security Presidential Directive (HSPD) 12 and Federal Information Processing Standards (FIPS) 201 produced by National Institute of Standards and Technology (NIST).

Transportation Security Administration's (TSA) Transportation Worker Identification Credential (TWIC) program.

Federal Information Security Management Act (FISMA);

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Sarbanes-Oxley Act of 2002 (also known as, the Public Company Accounting Reform and Investor Protection Act).

Health Insurance Portability and Accountability Act (HIPAA).

Gramm-Leach Bliley Act of 1999 (GLBA, a.k.a., the Financial Modernization Act).

Customs-Trade Partnership Against Terrorism (C-TPAT).

Free and Secure Trade Program (FAST).

Chemical Facility Anti Terrorism Standards (CFATS).d

Various Code of Federal Regulations (CFR).

Discontinuance of, changes in, or lack of adoption of laws or regulations pertaining to security could adversely affect Hirsch's performance.

***Hirsch's business could be adversely affected by significant changes in the contracting or fiscal policies of governments and governmental entities.***

Hirsch derives a substantial portion of its revenues from contracts with international, federal, state and local governments and government agencies, and subcontracts under federal government prime contracts. Hirsch believes that the success and growth of its business will continue to be influenced by its successful procurement of government contracts either directly or through prime contractors. Accordingly, changes in government contracting policies or government budgetary constraints could directly affect its financial performance.

Among the factors that could adversely affect Hirsch's business are:

changes in fiscal policies or decreases in available government funding or grants;

changes in government programs or applicable requirements;

the adoption of new laws or regulations or changes to existing laws or regulations;

changes in political or social attitudes with respect to security and defense issues;

potential delays or changes in the government appropriations process; and

delays in the payment of its invoices by government payment offices.

These and other factors could cause governments and governmental agencies, or prime contractors that purchase Hirsch products or services, to reduce their purchases under existing contracts, to exercise their rights to terminate contracts at-will or to abstain from exercising options to renew contracts, any of which could have an adverse effect on Hirsch's business, financial condition and results of operations. Many of Hirsch's government customers are subject to stringent budgetary constraints. The award of additional contracts from government agencies could be adversely affected by existing or upcoming spending reduction efforts or budget cutbacks at these agencies.

***International uncertainties and fluctuations in the value of foreign currencies could harm Hirsch's profitability.***

During each of the years ended November 30, 2007 and November 30, 2008, revenues outside of the Americas accounted for approximately 11% and 12%, respectively, of Hirsch's total revenues. Hirsch also currently has international operations, consisting primarily of its office in Milan, Italy. Hirsch's international revenues and operations are subject to a number of material risks, including, but not limited to:

difficulties in building and managing foreign operations;

regulatory uncertainties in foreign countries;

difficulties in enforcing agreements and collecting receivables through foreign legal systems and other relevant legal issues;

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longer payment cycles;

foreign and U.S. taxation issues;

potential weaknesses in foreign economies;

fluctuations in the value of foreign currencies;

general economic and political conditions in the markets in which Hirsch operates; and

unexpected domestic and international regulatory, economic or political changes.

Hirsch's sales, including sales to customers outside the United States, are primarily denominated in U.S. dollars, and therefore downward fluctuations in the value of foreign currencies relative to the U.S. dollar may make Hirsch's solutions more expensive than local solutions in international locations. This would make its solutions less price competitive than local solutions, which could harm its business. Hirsch does not currently engage in currency hedging activities to limit the risks of currency fluctuations. Therefore, fluctuations in the value of foreign currencies could harm results of operations.

***Hirsch's strategy to increase its sales of professional services, identity management, biometric and smart card-related products and solutions may not be successful.***

Historically, the majority of Hirsch's business and products has been focused on electronic access control and integrated security management systems. A component of Hirsch's strategy is to develop and grow its sales of other products and solutions, in particular professional services, identity management, biometrics and smart card-related products and solutions. The market for some of these solutions is at an early stage of development compared to the market for traditional access control. Hirsch cannot be certain that other security solutions such as those described above will gain wide market acceptance, that this market will develop and grow as it expects, that Hirsch will successfully develop products for this market, or that it will have the same success in this market as it has had in its traditional access control systems market.

***Competitors may develop new technologies or products before Hirsch does.***

Hirsch's business may be materially adversely affected by the announcement or introduction of new products and services by its competitors, and the implementation of effective marketing or sales strategies by its competitors. There can be no assurance that competitors will not develop products that are superior to the Hirsch's products. Further, there can be no assurance that Hirsch will not experience additional price competition, and that such competition may not adversely affect Hirsch's position and results of operations.

Hirsch expects the market to remain highly competitive. Some current and potential competitors have substantially greater financial, engineering, manufacturing, sales, marketing, channel and partner resources than Hirsch. To compete effectively in this environment, Hirsch must continually develop and market new and enhanced solutions and technologies at competitive prices and must have the resources available to invest in significant research and development activities. Hirsch's failure to compete successfully could cause its revenues and market share to decline.

***Hirsch relies on dealers/integrators to sell its products, and any adverse change in its relationship with its distributors could result in a loss of revenue and harm its business.***

Hirsch distributes its products primarily through independent dealers/integrators of security equipment. Some of these dealers also sell Hirsch's competitors' products, and if they favor its competitors' products for any reason, they may fail to market its products as effectively or to devote resources necessary to provide effective sales, which would cause Hirsch's results to suffer. In addition, the financial health of these dealers and Hirsch's continuing relationships with them are important to Hirsch's success. Some of these dealers may be unable to withstand adverse changes in business conditions. The Hirsch business could be seriously harmed if the financial condition of some of these dealers substantially weakens.

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***Loss of limited source suppliers may result in delays or additional expenses.***

Hirsch obtains hardware components and complete products from a limited group of suppliers, and it does not have long-term agreements with any of these suppliers obligating them to continue to sell components or products to Hirsch. Hirsch's reliance on its suppliers involves significant risks, including reduced control over quality, price and delivery schedules.

Because Hirsch has been building its core products for several years, there are a few parts that have reached end-of-life. Hirsch so far has been able to continue to source those parts, but the continued availability and pricing of older components in the future is not guaranteed. A significant portion of Hirsch's revenue is derived from the resale of cards and card readers from HID Corporation ( HID ), and if supplies from that company were to be disrupted, Hirsch's business would be adversely affected. Hirsch resells Dell computers and servers, and disruption of that supply would adversely affect Hirsch. Hirsch out-sources the stuffing of printed circuit boards to local manufacturers. The bulk of that out-sourcing is with a single entity, and disruptions within that company would adversely affect Hirsch.

Any financial instability of, or consolidation among, Hirsch's manufacturers or contractors could result in it having to find new suppliers. Hirsch may experience significant delays in manufacturing and shipping its products to customers if it loses these sources or if the supplies from these sources are delayed, or are of poor quality or supplied in insufficient amounts. As a result, Hirsch may be required to incur additional development, manufacturing and other costs to establish alternative sources of supply. It may take several months to locate alternative suppliers, if required, or to re-tool Hirsch's products to accommodate components from different suppliers. Hirsch cannot predict if it will be able to obtain replacement components within the time frames it requires at an affordable cost, or at all. Any delays resulting from suppliers failing to deliver components or products on a timely basis, in sufficient quantities and of sufficient quality or any significant increase in the price of components from existing or alternative suppliers could disrupt Hirsch's ability to meet customer demands or reduce Hirsch's gross margins.

***Hirsch derives a substantial portion of its revenue through the sale of its solutions to U.S. government entities, pursuant to government contracts which differ materially from standard commercial contracts, involve competitive bidding and may be subject to cancellation or delay without penalty, any of which may produce volatility in its revenues and earnings.***

Government contracts frequently include provisions that are not standard in private commercial transactions. For example, government contracts may include bonding requirements and provisions permitting the purchasing agency to cancel or delay the contract without penalty in certain circumstances.

In addition, government contracts are frequently awarded only after formal competitive bidding processes, which have been and may continue to be protracted, and typically impose provisions that permit cancellation in the event that necessary funds are unavailable to the public agency. In many cases, unsuccessful bidders for government agency contracts are provided the opportunity to formally protest certain contract awards through various agency, administrative and judicial channels. The protest process may substantially delay a successful bidder's contract performance, result in cancellation of the contract award entirely and distract management. Hirsch may not be awarded contracts for which it bids, and substantial delays or cancellation of purchases may even follow its successful bids as a result of such protests.

Furthermore, local government agency contracts may be contingent upon availability of matching funds from federal or state entities. Law enforcement and other government agencies are subject to political, budgetary, purchasing and delivery constraints which may cause Hirsch's quarterly and annual revenues and operating results to fluctuate in a manner that is difficult to predict.



***Hirsch's business could be adversely affected by negative audits by government agencies, and Hirsch could be required to reimburse the U.S. government for costs that it has expended on its contracts, and its ability to compete successfully for future contracts could be materially impaired.***

Government agencies may audit Hirsch as part of their routine audits and investigations of government contracts. As part of an audit, these agencies may review Hirsch's performance on contracts, cost structures and

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compliance with applicable laws, regulations and standards. These agencies may also review the adequacy of, and Hirsch's compliance with, its own internal control systems and policies, including its purchasing, property, estimating, compensation and management information systems. If any of its costs are found to be improperly allocated to a specific contract, the costs may not be reimbursed and any costs already reimbursed for such contract may have to be refunded. An audit could materially affect Hirsch's competitive position and result in a material adjustment to its financial results or statement of operations. If a government agency audit uncovers improper or illegal activities, Hirsch may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with the federal government. In addition, Hirsch could suffer serious harm to its reputation if allegations of impropriety were made against it. While Hirsch has never had a negative audit by a governmental agency, it cannot assure that one will not occur. If Hirsch was suspended or barred from contracting with the federal government generally, or if its reputation or relationships with government agencies were impaired, or if the government otherwise ceased doing business with it or significantly decreased the amount of business it does with Hirsch, its revenues and prospects would be materially harmed.

***Hirsch is subject to extensive government regulation, and its failure to comply with applicable regulations could subject it to penalties that may restrict its ability to conduct its business.***

Hirsch is affected by and must comply with various government regulations that impact its operating costs, profit margins and the internal organization and operation of its business. Furthermore, Hirsch may be audited to assure its compliance with these requirements. Its failure to comply with applicable regulations, rules and approvals could result in the imposition of penalties, the loss of Hirsch's government contracts or its cancellation of Hirsch's General Services Administration contract, any of which could adversely affect its business, financial condition and results of operations. Among the most significant regulations affecting Hirsch's business are the following:

The Federal Acquisition Regulations, or the FAR, and agency regulations supplemental to the FAR, which comprehensively regulate the formation and administration of, and performance under government contracts.

The Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations.

The Cost Accounting Standards, which impose accounting requirements that govern Hirsch's right to reimbursement under cost-based government contracts.

The Foreign Corrupt Practices Act.

Laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

These regulations affect how Hirsch's customers can do business with it, and, in some instances, the regulations impose added costs on its business. Any changes in applicable laws and regulations could restrict its ability to conduct its business. Any failure by Hirsch to comply with applicable laws and regulations could result in contract termination, price or fee reductions or suspension or debarment from contracting with the federal government generally.

***If Hirsch is unable to continue to obtain U.S. government authorization regarding the export of its products, or if current or future export laws limit or otherwise restrict Hirsch's business, it could be prohibited from shipping Hirsch's products to certain countries, which could cause its business, financial condition and results of operations to suffer.***

Hirsch must comply with U.S. laws regulating the export of Hirsch's products. In some cases, explicit authorization from the U.S. government is needed to export its products. The export regimes and the governing policies applicable to Hirsch's business are subject to changes. It cannot be certain that such export authorizations will be available to Hirsch or for Hirsch's products in the future. In some cases, Hirsch relies upon the compliance activities of its prime contractors, and it cannot be certain they have taken or will take all measures necessary to comply with applicable export laws. If Hirsch or its prime contractor partners cannot obtain required government approvals under applicable regulations, it may not be able to sell Hirsch's products in certain international jurisdictions.

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***Hirsch's sometimes lengthy and variable sales cycle will make it difficult to predict financial results.***

Hirsch's solutions often require a lengthy sales cycle ranging from several months to sometimes over a year before it can receive approvals for purchase. The length of the sales cycle depends on the size and complexity of the solutions, the customer's budgeting process, the customer's in-depth evaluation of Hirsch's solutions and a competitive bidding process. As a result, Hirsch may incur substantial expense before it earns associated revenues, since a significant portion of Hirsch's operating expenses is relatively fixed. The lengthy sales cycles of its solutions make forecasting the volume and timing of sales difficult. In addition, the delays inherent in lengthy sales cycles raise additional risks that customers may cancel contracts or change their minds. If customer cancellations occur, they could result in the loss of anticipated sales without allowing Hirsch sufficient time to reduce Hirsch's operating expenses.

***Hirsch's financial results often vary significantly from quarter to quarter and may be negatively affected by a number of factors.***

Hirsch bases its current and future expense levels on its internal operating plans and sales forecasts, and its operating costs are to a large extent fixed. As a result, it may not be able to sufficiently reduce its costs in any quarter to adequately compensate for an unexpected near-term shortfall in revenues, and even a small shortfall could disproportionately and adversely affect financial results for that quarter.

In addition, Hirsch's financial results may fluctuate from quarter to quarter and be negatively affected by a number of factors, including the following:

- the lack or reduction of government funding and the political, budgetary and purchasing constraints of its government agency customers;
- the terms of customer contracts that affect the timing of revenue recognition;
- the size and timing of its receipt of customer orders;
- the inaccurate forecasts or incomplete information from its channel partners;
- significant fluctuation in demand for its solutions;
- price reductions or adjustments, new competitors, or the introduction of enhanced solutions from new or existing competitors;
- cancellations, delays or contract amendments by government agency customers;
- protests of federal, state or local government contract awards by competitors;
- unforeseen legal expenses, including litigation and/or administrative protest costs;
- potential effects of providing services as a prime contractor that may not carry gross margins as high as those of its core solutions;
- impairment charges arising out of its assessments of goodwill and intangibles; and
- other one-time financial charges.

***Security breaches in systems that Hirsch sells or maintains could result in the disclosure of sensitive government information or private personal information that could result in the loss of clients and negative publicity.***

Many of the systems Hirsch sells manage private personal information and protect information involved in sensitive government functions. A security breach in one of these systems could cause serious harm to Hirsch's business as a result of negative publicity and could prevent Hirsch from having further access to such systems or other similarly sensitive areas for other governmental clients.

As part of its technical support services, Hirsch agrees, from time to time, to possess all or a portion of the security system database of its customers. This service is subject to a number of risks. For example, its systems may be vulnerable to physical or electronic break-ins and service disruptions that could lead to interruptions, delays or

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loss of data. If any such compromise of Hirsch's security were to occur, it could be very expensive to correct, could damage Hirsch's reputation and could discourage potential customers from using its services. Although Hirsch has not experienced attempted break-ins, it may experience such attempts in the future. Its systems may also be affected by outages, delays and other difficulties. Hirsch's insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

***Hirsch'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 and solutions as complex as those Hirsch offers 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 Hirsch's products contain defects or perceived defects or have reliability, quality or compatibility problems or perceived problems, its 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 its ability to recognize revenue for products shipped. In the event of an actual or perceived defect or other problem, Hirsch 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 it is unable to provide a solution to the potential defect or problem that is acceptable to Hirsch's 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 its business and operating results.

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

***Hirsch offers a warranty on its products for a period of two years, which could result in warranty claims, possible litigation, and liability.***

Hirsch offers a warranty on its products for a period of two years. Purchasers of Hirsch products may bring warranty claims against Hirsch, which could result in litigation costs and liability. These costs may adversely effect Hirsch's results of operations.

***Failure to properly manage projects may result in costs or claims against Hirsch, and Hirsch's financial results could be adversely affected.***

Deployments of Hirsch's solutions often involve large-scale projects. The quality of its performance on such projects depends in large part upon Hirsch's ability to manage relationships with Hirsch's customers and to effectively manage the projects and deploy appropriate resources, including its own project managers and third party subcontractors, in a timely manner. Any defects or errors or failures to meet clients' expectations could result in damage to its reputation or even claims for substantial monetary damages against it. In addition, Hirsch sometimes guarantees customers that it will complete a project by a scheduled date or that Hirsch's solutions will achieve defined performance standards. If its solutions experience a performance problem, it may not be able to recover the additional costs it will incur in its

remedial efforts, which could materially impair profit from a particular project. Moreover, a portion of Hirsch's revenues are derived from fixed price contracts. Changes in the actual and estimated costs and time to complete fixed-price, time-certain projects may result in revenue adjustments for contracts where revenue is recognized under the percentage of completion method. Finally, if Hirsch miscalculates the amount of resources or time it needs to complete a project for which it has agreed to capped or fixed fees, its financial results could be adversely affected.

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***Hirsch is dependent on its management team and the loss of any key member of its team may impair Hirsch's ability to operate effectively and may harm Hirsch's business.***

Hirsch's success depends largely upon the continued services of Hirsch's senior management, sales staff, and other key personnel. Some Hirsch employees have cultivated relationships with its customers, which makes it particularly dependent upon their continued employment with it. Hirsch is also substantially dependent on the continued services of its existing engineering and project management personnel because of the highly technical nature of its solutions. Other than an existing employment agreement with Robert Beliles which will terminate upon the closing of the Merger, Hirsch does not have employment agreements with any of its executive officers or key personnel obligating them to provide continued services and therefore, they could terminate their employment with it at any time, without penalty. Hirsch does not maintain key person life insurance policies on any of its employees. The loss of one or more members of its management team or other key personnel could seriously harm Hirsch's business.

***Any failure to protect Hirsch's intellectual property rights could impair its ability to protect its proprietary technology, which could have a material adverse effect on the Hirsch business, financial condition and results of operations, and on its ability to compete effectively.***

Hirsch's success depends significantly upon its proprietary technology. Hirsch currently relies on a combination of patents, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect its proprietary rights, which afford only limited protection. Although Hirsch often seeks to protect its proprietary technology through patents, it is possible that no new patents will be issued, that Hirsch's proprietary products or technologies are not patentable, and that any issued patent will fail to provide it with any competitive advantages. In addition, Hirsch has historically not entered into proprietary information and assignment agreements with its employees or consultants.

Unauthorized third parties may try to copy or reverse engineer portions of Hirsch's products or otherwise obtain and use its intellectual property. If it fails to protect Hirsch's intellectual property rights adequately, its competitors may gain access to Hirsch's technology, and its business would thus be harmed. In addition, defending Hirsch's intellectual property rights may entail significant expense. Any of its trademarks or other intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. In addition, its patents, or any patents that may be issued to it in the future, may not provide it with any competitive advantages, or may be challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to Hirsch in every country in which it markets its solutions. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and domestic and international mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite its efforts, it may be unable to prevent third parties from infringing upon or misappropriating its intellectual property or otherwise gaining access to its technology.

Hirsch may be required to expend significant resources to monitor and protect its intellectual property rights. It may initiate claims or litigation against third parties for infringement of Hirsch's proprietary rights or to establish the validity of its proprietary rights. Any such litigation, whether or not it is ultimately resolved in its favor, could result in significant expense to it and divert the efforts of Hirsch's technical and management personnel.

***Hirsch may be sued by third parties in connection with intellectual property claims, such as for alleged infringement of any third party's proprietary rights.***

Any intellectual property claims, with or without merit, could be time-consuming and expensive to litigate or settle, and could divert management attention away from the execution of Hirsch's business plan. In addition, Hirsch may be



required to indemnify Hirsch's customers for third-party intellectual property infringement claims, which would increase the cost of an adverse ruling in such a claim. An adverse determination could also prevent it from offering its solutions to others.

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***Changes in tax laws or the interpretation thereof, adverse tax audits and other tax matters may adversely affect Hirsch's future results.***

A number of factors may impact Hirsch's tax position, including:

the jurisdictions in which profits are determined to be earned and taxed;

the resolution of issues arising from tax audits with various tax authorities;

changes in the valuation of its deferred tax assets and liabilities;

adjustments to estimated taxes upon finalization of various tax returns;

increases in expenses not deductible for tax purposes; and

the repatriation of non-U.S. earnings for which it has not previously provided for U.S. taxes.

Any of these factors could make it more difficult for Hirsch to project or achieve expected tax results. An increase or decrease in its tax liabilities due to these or other factors could adversely affect its financial results in future periods.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/information statement and prospectus and the documents incorporated by reference herein contain forward-looking statements that involve risks and uncertainties, as well as assumptions, that could cause the results of SCM and Hirsch to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words may, will, project, might, expects, anticipate, believes, intends, estimates, should, could, would, strategy, plan, continue, pursue, or the negative or other words or expressions of similar meaning. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements. For example, forward-looking statements include any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans and the anticipated timing of filings; any statements concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing. Forward-looking statements may also include any statements of the plans, strategies and objectives of management with respect to the approval and closing of the Merger, SCM's and Hirsch's ability to solicit a sufficient number of proxies to approve the Merger and other matters related to the consummation of the Merger.

For a discussion of risks associated with the ability of SCM and Hirsch to complete the Merger and the effect of the Merger on the present business of SCM, Hirsch and the business of SCM after the Merger, see the section entitled Risk Factors, beginning on page 12.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by SCM. See the section entitled Where You Can Find More Information, beginning on page 210.

*If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, the results of SCM or Hirsch could differ materially from the forward-looking statements. All forward-looking statements in this joint proxy statement/information statement and prospectus are current only as of the date on which the statements were made. SCM and Hirsch do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any statement is made or to reflect the occurrence of unanticipated events.*

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**SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA**

*The following tables present selected historical financial data for SCM and Hirsch and comparative historical and unaudited pro forma per share data for SCM and Hirsch.*

**Selected Historical Financial Data of SCM**

The selected consolidated financial data set forth below for SCM is derived in part from and should be read in conjunction with SCM's consolidated financial statements, the related notes and the section of this joint proxy statement/information statement and prospectus entitled "SCM Microsystems Management's Discussion and Analysis of Financial Conditions and Results of Operation." The consolidated statement of operations data for each of the years ended December 31, 2003, 2004, 2005, 2006 and 2007 and the consolidated balance sheet data as of December 31, 2003, 2004, 2005, 2006 and 2007 were derived from SCM's audited consolidated financial statements included in this joint proxy statement/information statement and prospectus. The consolidated statement of operations data for the nine-month periods ended September 30, 2007 and 2008 and the consolidated balance sheet data as of September 30, 2008 were derived from SCM's unaudited consolidated financial statements included in this proxy joint proxy statement/information statement and prospectus. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). This selected financial information is unaudited but, in SCM management's opinion, has been prepared on the same basis as the audited consolidated financial statements and related notes included throughout this joint proxy statement/information statement and prospectus and includes all adjustments, consisting only of normal recurring adjustments, that SCM's management considers necessary for a fair presentation of the information for the periods presented. Historical results are not necessarily indicative of results to be expected for future periods.

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**SCM MICROSYSTEMS, INC.**  
**SELECTED CONSOLIDATED FINANCIAL DATA**

(In thousands, except per share data)	Three	Nine	2007	Years Ended December 31,			2003
	Months	Months		2006	2005	2004	
	Ended	Ended					
	September 30,	September 30,					
	2008	2008					
	(Unaudited)						
<b>Consolidated Statement of Operations Data:</b>							
Net revenue	\$ 6,393	\$ 19,377	\$ 30,435	\$ 33,613	\$ 27,936	\$ 30,030	\$ 31,147
Cost of revenue	3,483	10,961	17,781	21,756	17,106	17,724	18,643
Gross profit	2,910	8,416	12,654	11,857	10,830	12,306	12,504
Operating expenses:							
Research and development	980	3,058	3,123	3,767	4,081	4,807	3,958
Selling and marketing	2,280	7,010	6,603	7,498	7,040	8,560	7,943
General and administrative	1,697	4,718	7,132	7,548	9,198	9,021	11,018
Amortization of intangibles			272	666	673	1,078	1,129
Impairment of goodwill and intangibles						388	
Restructuring and other charges (credits)			(4)	1,120	319	607	3,283
Total operating expenses	4,957	14,786	17,126	20,599	21,311	24,461	27,331
Loss from operations	(2,047)	(6,370)	(4,472)	(8,742)	(10,481)	(12,155)	(14,827)
Loss from investments							(240)
Interest income	173	642	1,639	1,350	745	806	813
Foreign currency gains (losses) and other income (expense)	(1,290)	(935)	(346)	(225)	1,731	(1,675)	2,643
Loss from continuing operations before income taxes	(3,164)	(6,663)	(3,179)	(7,617)	(8,005)	(13,024)	(11,611)
Benefit (provision) for income taxes	(103)	(151)	(113)	(73)	(150)	173	2,013
Loss from continuing operations	(3,267)	(6,814)	(3,292)	(7,690)	(8,155)	(12,851)	(9,598)
Gain (loss) from discontinued operations, net of income taxes	424	273	(215)	3,508	(2,109)	(6,242)	(13,476)
Gain (loss) on sale of discontinued operations, net of income taxes	44	553	1,586	5,224	(2,171)	430	(15,102)
Net income (loss)	\$ (2,799)	\$ (5,988)	\$ (1,921)	\$ 1,042	\$ (12,435)	\$ (18,663)	\$ (38,176)
Basic and diluted loss per share from continuing operations	\$ (0.21)	\$ (0.43)	\$ (0.21)	\$ (0.49)	\$ (0.53)	\$ (0.83)	\$ (0.63)

Basic and diluted income (loss) per share from discontinued operations	\$ 0.03	\$ 0.05	\$ 0.09	\$ 0.56	\$ (0.27)	\$ (0.38)	\$ (1.86)
Basic and diluted net income (loss) per share	\$ (0.18)	\$ (0.38)	\$ (0.12)	\$ 0.07	\$ (0.80)	\$ (1.21)	\$ (2.49)
Shares used to compute basic and diluted income (loss) per share	15,744	15,743	15,725	15,638	15,532	15,402	15,317

<b>(In thousands)</b>	<b>September 30, 2008</b>	<b>2007</b>	<b>2006</b>	<b>December 31, 2005</b>	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>					
<b>Consolidated Balance Sheet Data:</b>						
Cash, cash equivalents and short-term investments <i>(unaudited)</i>	\$ 25,020	\$ 32,444	\$ 36,902	\$ 32,440	\$ 46,153	\$ 55,038
Working capital(1) <i>(unaudited)</i>	27,772	34,027	31,967	27,371	39,161	50,700
Total assets	40,600	48,564	51,355	52,734	73,307	96,442
Total stockholders' equity	31,137	37,039	35,318	32,617	46,829	63,424

(1) Working capital is defined as current assets less current liabilities

**Table of Contents****Selected Historical Financial Data of Hirsch**

The selected financial data set forth below for Hirsch is derived in part from and should be read in conjunction with Hirsch's financial statements, the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operation included in this joint proxy statement/information statement and prospectus. The statement of income data for each of the years ended November 30, 2004, 2005, 2006, 2007 and 2008 and the balance sheet data as of November 30, 2004, 2005, 2006, 2007 and 2008 were derived from Hirsch's audited financial statements included in this joint proxy statement/information statement and prospectus.

**HIRSCH ELECTRONICS CORPORATION**  
**SELECTED FINANCIAL DATA**

	<b>Years Ended November 30,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>(In thousands)</b>					
<b>Statement of Operations Data:</b>					
Net revenues	\$ 23,042	\$ 21,990	\$ 20,883	\$ 20,026	\$ 15,899
Cost of revenues	9,988	9,370	8,747	8,214	6,353
Royalties to related parties	1,028	993	938	915	726
Gross profit	12,026	11,627	11,198	10,897	8,820
Operating expenses:					
Research and development	3,310	780	729	704	679
Selling, General and administrative	9,576	8,055	7,416	7,312	7,397
Depreciation and amortization	100	159	138	163	210
Total operating expenses	12,986	8,994	8,283	8,179	8,286
Income (loss) from operations	(960)	2,633	2,915	2,718	534
Other income (loss)	(742)	215	139	66	20
Income (loss) before provision for income taxes	(1,702)	2,848	3,054	2,784	554
Benefit (provision) for income taxes	664	(1,148)	(1,091)	(1,211)	(111)
Net income (loss)	\$ (1,038)	\$ 1,700	\$ 1,963	\$ 1,573	\$ 443

	<b>November 30,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>(In thousands)</b>					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 4,932	\$ 5,014	\$ 4,031	\$ 3,057	\$ 1,253

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Working capital(1) ( <i>unaudited</i> )	8,779	9,288	7,470	5,767	3,927
Total assets	12,065	11,758	9,499	8,375	5,848
Total stockholders equity	9,356	10,066	8,240	6,241	4,532

(1) Working capital is defined as current assets less current liabilities



**Table of Contents****Comparative Historical and Unaudited Pro Forma Per Share Data**

The following tables set forth the SCM historical net income (loss) per share for the nine months ended September 30, 2008, on an unaudited basis, and year ended December 31, 2007, and the historical book value per share as of September 30, 2008 and December 31, 2007, on an unaudited basis, and net income (loss) per share for SCM on an unaudited pro forma combined basis, for the nine months ended September 30, 2008 and year ended December 31, 2007, and unaudited pro forma book value per share as of September 30, 2008.

The pro forma combined data were derived from and should be read together with the unaudited pro forma condensed combined financial statements and accompanying notes included in this joint proxy statement/information statement and prospectus. This information is based on the historical balance sheets and related historical statements of operations of SCM and Hirsch included in this joint proxy statement/information statement and prospectus. The pro forma combined data give effect to the transaction using the purchase method of accounting for business combinations.

The unaudited pro forma combined per share data is presented for informational purposes only and is not intended to represent or be indicative of the per share data that would have been achieved if the Merger had been completed as of the dates indicated, and should not be taken as representative of future consolidated per share data of SCM. SCM's historical data were derived from and should be read together with the consolidated financial statements and accompanying notes included elsewhere in this joint proxy statement/information statement and prospectus. Hirsch is a privately-held company, and accordingly, per share historical data for Hirsch are omitted.

	<b>Nine Months Ended September 30, 2008 (Unaudited)</b>	<b>Year Ended December 31, 2007</b>
<b>SCM's Historical Data:</b>		
Net income (loss) per share(1):		
Basic and diluted loss per share from continuing operations	\$ (0.43)	\$ (0.21)
Basic and diluted income per share from discontinued Operations	\$ 0.05	\$ 0.09
Basic and diluted net loss per share	\$ (0.38)	\$ (0.12)
As of September 30, 2008:		
Consolidated book value per share(2)	\$ 1.98	
As of December 31, 2007:		
Consolidated book value per share ( <i>unaudited</i> ) (2)		\$ 2.36

	<b>Nine Months Ended September 30, 2008 (Unaudited)</b>	<b>Year-Ended December 31, 2007 (Unaudited)</b>
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**Pro Forma Combined Data:**

Pro forma net income (loss) per share(3):

Basic and diluted loss per share from continuing operations	\$	(0.31)	\$	(0.13)
Basic and diluted income per share from discontinued Operations	\$	0.03	\$	0.06

Basic and diluted net loss per share	\$	(0.28)	\$	(0.07)
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As of September 30, 2008:

Pro forma book value per share(4)	\$	1.75
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- (1) Historical net income (loss) per share was derived from the historical periodic SEC filings Form 10-Q for the quarterly period ended September 30, 2008 and Form 10-K for the fiscal year ended December 31, 2007.

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- (2) Consolidated book value per share as of September 30, 2008 and December 31, 2007 are calculated by dividing total shareholders' equity by the weighted average common shares outstanding as of respective dates.
- (3) Pro forma net income (loss) per share was calculated by dividing pro forma net income by the pro forma weighted average common shares outstanding as if the transaction had occurred on January 1, 2007.
- (4) Pro forma book value per share is computed by dividing pro forma total shareholders' equity by the pro forma weighted average common shares outstanding as if the transaction had occurred on September 30, 2008.

**Table of Contents****MARKET PRICE AND DIVIDEND INFORMATION****SCM Microsystems**

SCM's common stock is traded on the NASDAQ Stock Market's National Market under the symbol "SCMM" and on the Prime Standard of the Frankfurt Stock Exchange under the symbol "SMY". The following table sets forth the high and low closing prices of SCM's common stock for the periods indicated.

**SCM Common Stock**

	NASDAQ National Market		Prime Standard (Quoted in Euros)	
	High	Low	High	Low
<b>Fiscal 2009:</b>				
First Quarter (up to February 11, 2009)	\$ 2.70	\$ 1.97	2.01	1.48
<b>Fiscal 2008:</b>				
First Quarter	\$ 3.78	\$ 2.59	2.56	1.71
Second Quarter	\$ 3.19	\$ 2.71	1.99	1.68
Third Quarter	\$ 3.17	\$ 2.08	2.03	1.52
Fourth Quarter	\$ 2.34	\$ 1.27	1.62	1.02
<b>Fiscal 2007:</b>				
First Quarter	\$ 4.34	\$ 2.97	3.35	2.30
Second Quarter	\$ 4.42	\$ 2.90	3.25	2.23
Third Quarter	\$ 3.32	\$ 2.63	2.28	1.95
Fourth Quarter	\$ 3.74	\$ 2.85	2.56	2.05
<b>Fiscal 2006:</b>				
First Quarter	\$ 3.86	\$ 2.91	3.22	2.48
Second Quarter	\$ 3.90	\$ 2.91	3.10	2.26
Third Quarter	\$ 3.41	\$ 2.79	2.64	2.24
Fourth Quarter	\$ 3.71	\$ 2.98	2.80	2.27

On December 10, 2008, the last full trading day prior to the public announcement of entry into the Merger Agreement, the closing price per share of SCM's common stock as reported on the NASDAQ Stock Market was \$1.27 per share.

On February 11, 2009, the last practicable trading date before the filing of this joint proxy statement/information statement and prospectus, the closing price per share of SCM's common stock as reported on the NASDAQ Stock Market was \$2.67.

As of February 11, 2009, SCM's record date, SCM had approximately 55 stockholders of record stockholders. Not represented in this figure are individual stockholders in Germany whose custodian banks do not release stockholder information about their SCM holdings.

Because the market price of SCM's common stock is subject to fluctuation, the market value of the shares of SCM's common stock that holders of Hirsch common stock will be entitled to receive in the Merger may increase or

decrease. The market prices above may not be indicative of the future value of the SCM common stock.

Following the consummation of the Merger, SCM's common stock, including the shares 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.

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SCM has never declared or 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. Payment of future dividends, if any, will be at the discretion of SCM's board of directors.

**Hirsch Electronics**

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's record date, 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.

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**THE MERGER**

*This section and the section entitled *The Merger Agreement* beginning on page 91 of this joint proxy statement/information statement and prospectus describe the material terms of the Merger, including the Merger Agreement. While SCM and Hirsch believe that this description covers all of the material terms of the Merger and the Merger Agreement, it may not contain all of the information that is important to you. You should read carefully this entire joint proxy statement/information statement and prospectus, including the Merger Agreement, which is attached as Annex A to this joint proxy statement/information statement and prospectus, and the other documents to which SCM and Hirsch have referred.*

**Background of the Development of the Merger**

During a period of approximately three years prior to entering into the Merger Agreement, Hirsch had engaged in preliminary discussions with other potential acquirers regarding the sale of Hirsch. These discussions generally terminated due to misalignment of valuation expectations between Hirsch and the potential acquirers.

On May 23, 2006, SCM entered into an advisory services agreement to engage Newton International Management LLC and Mr. Ayman Ashour, a principal partner in Bluehill ID (a significant stockholder of SCM, which was founded in March 2007) and former director of Hirsch, as a consultant to develop a growth and acquisition strategy for SCM. Over the course of the next several months, SCM considered several potential strategic transactions, including a transaction involving Hirsch, and representatives of SCM and Hirsch held several meetings.

On June 12, 2006, Steven Humphreys, director of SCM and Mr. Ashour met with Lawrence W. Midland, President of Hirsch, at Hirsch's offices in Santa Ana, California to discuss mutual interest in a potential transaction. Over the course of the next several months, SCM considered several potential strategic transactions, including a transaction involving Hirsch, and representatives of SCM and Hirsch held several meetings.

In late 2006, SCM decided to suspend further consideration of a strategic transaction and discussions between Hirsch and SCM regarding a strategic transaction terminated, and SCM terminated the advisory services agreement with Newton International and Ayman Ashour.

In early January 2008, SCM engaged Aquarium Partners to prepare an in-depth market analysis and identify potential acquisition targets, which included Hirsch Electronics.

In March 2008, Hirsch and SCM began discussing the possibility of an exclusive distribution agreement between the parties.

On April 7, 2008, Egis Capital, an investment fund that is managed by a general partnership that certain principals of Imperial Capital are members of, made a preliminary offer to purchase the assets of Hirsch, which offer was rejected by Hirsch due to both valuation and the proposed structure of the transaction. Egis Capital offered to purchase substantially all of the assets of Hirsch in exchange for cash and a promissory note pursuant to, in part, an earnout structure.

Between late May and June 2008, representatives of SCM and Hirsch met to discuss preliminarily a potential transaction between the parties.

On July 3, 2008, the Chairman of the Board of SCM instructed SCM's management to continue to explore a potential transaction with Hirsch.

On July 7, 2008, Hirsch and SCM signed an exclusive distributor agreement.

On July 8, 2008, Hirsch and SCM signed a non-disclosure agreement related to the potential merger and began to exchange non-public information on a confidential basis.

Between July 21 and 23, 2008, representatives of SCM and Hirsch met to provide information concerning the respective companies' businesses and to continue discussions regarding the possibility of a transaction. Also at this time, SCM received an initial purchase price proposal from Hirsch for the potential transaction.



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On July 30, 2008, management of SCM made a presentation to the SCM board of directors regarding a potential transaction with Hirsch. After this presentation, the board of directors of SCM instructed SCM's management to continue to explore a potential transaction with Hirsch.

Between August 11 and 13, 2008, Mr. Midland met with representatives of SCM at SCM's headquarters in Ismaning, Germany, in order to further discuss a potential transaction between the parties.

On August 19, 2008, Mr. Midland and Felix Marx, Chief Executive Officer of SCM, had a conference call to discuss certain proposed terms of a potential transaction. On September 4, 2008, Mr. Marx and Dr. Mueller, Executive Vice President, Strategic Sales and Business Development of SCM, met with Mr. Midland to further discuss such terms.

During the period of September 2008 through November 2008, SCM and its advisors conducted legal, financial, technical and accounting due diligence on Hirsch, based on information and documentation provided to them by Hirsch. During this period, Hirsch and its advisors also conducted due diligence on SCM. Several meetings between representatives of SCM and Hirsch also took place during this period at which proposed terms of a potential transaction were discussed.

On September 15, 2008, SCM engaged Avondale Partners to provide financial advisory services related to the proposed transaction and to render an opinion evaluating the financial fairness of any proposed transaction. SCM executed an engagement letter with Avondale on October 9, 2008.

On September 30, 2008, the SCM board of directors met by phone to discuss the potential transaction with Hirsch and instructed SCM's management to continue to explore a potential transaction with Hirsch.

On October 7, 2008, the SCM board of directors met by phone with representatives of Gibson, Dunn & Crutcher LLP to discuss certain matters in connection with potential business combinations. Management of SCM also presented an update of the status of the discussions with Hirsch regarding a potential transaction.

Between October 14 and 17, 2008, representatives of SCM met with Gibson Dunn & Crutcher LLP and Hirsch and Hirsch's outside counsel, Palmieri, Tyler, Wiener, Wilhelm & Waldron LLP at Hirsch's offices, to discuss the proposed terms of a potential transaction. On October 16, 2008, SCM and Hirsch entered into an exclusivity agreement related to the proposed transaction.

On October 16, 2008, management of SCM presented an update to the SCM board of directors of the status of the discussions with Hirsch regarding a potential transaction, and on October 23, 2008, the SCM board of directors met to discuss the proposed terms of a transaction with Hirsch.

On October 27, 2008, Hirsch engaged Imperial Capital to render an opinion evaluating the financial fairness of any proposed transaction.

On October 30, 2008, Mr. Marx met with Mr. Midland and representatives of Avondale in Santa Ana, California to discuss Hirsch's operations and financial projections.

On October 30 and 31, 2008, Mr. Marx met with Mr. Midland in Santa Ana, California to discuss the proposed terms of the transaction.

In early November 2008, several meetings between representatives of SCM and Hirsch also took place at which proposed terms of a potential transaction were discussed. On November 4 and 5, 2008, Mr. Midland attended the Cartes smart card trade show and exhibition in Paris and met with the SCM management team to continue discussions.

On November 8, 2008, Mr. Marx met with members of Hirsch management to discuss the proposed transaction and related matters.

On November 12 and 14, 2008, representatives from SCM and Hirsch, legal advisors for the two parties, and a representative from Avondale met in Santa Ana to continue to discuss the potential transactions.

On November 14, 2008, Hirsch's board of directors held a meeting to discuss the proposed transaction between Hirsch and SCM. Mr. Marx was present for a portion of the meeting at which time he was introduced to the Hirsch

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board. Following the departure of Mr. Marx, a representative from Palmieri, Tyler, Wiener, Wilhelm & Waldron LLP made a presentation to the board regarding certain matters in connection with the proposed transaction.

On November 19, 2008, Mr. Marx met with members of the SCM board of directors to discuss the status of the discussions regarding the proposed transaction.

On November 21, 2008, Mr. Marx and Mr. Midland had a conference call to discuss open issues regarding the proposed transaction, including the terms of the Merger Agreement.

On November 23, 2008, representatives from SCM and Hirsch and legal advisors for the two parties had a conference call to discuss the terms of the proposed transaction, including the terms of the Merger Agreement.

On November 26, 2008, the Hirsch board of directors met to further discuss the proposed transaction and the results of the diligence conducted on SCM. Representatives from Palmieri, Tyler, Wiener, Wilhelm & Waldron LLP were also in attendance, and representatives of Imperial Capital were in attendance for part of the meeting to deliver a draft of Imperial Capital's fairness opinion. Imperial Capital did not discuss any of the diligence conducted by Hirsch or its representatives on SCM at such meeting.

On November 27, 2008, the SCM board of directors held a special meeting at which the board obtained updates from management and advisers regarding the status of negotiations with Hirsch. At the meeting, the SCM board instructed SCM's management to continue to pursue a potential transaction with Hirsch. From that day through December 8, 2008, representatives of SCM and Hirsch, together with their respective legal counsel, participated in several conference calls to try to finalize the terms of the potential transaction and the Merger Agreement.

On December 5, 2008, the Hirsch board of directors held a meeting to further discuss the proposed merger. A representative from Palmieri, Tyler, Wiener, Wilhelm & Waldron LLP was also in attendance at this meeting.

On December 9, 2008, the SCM board of directors held a special meeting at which the proposed transaction with Hirsch was further discussed and considered. At the meeting, members of SCM's senior management team made a presentation to the board of directors regarding the terms of the proposed Merger and representatives of Avondale made a financial presentation to the SCM board of directors and rendered Avondale's oral opinion, subsequently confirmed in writing, to the effect that, as of December 9, 2008, the date of the opinion, and based upon and subject to the various considerations and limitations set forth in such opinion, the merger consideration to be paid by SCM is fair to SCM from a financial point of view. SCM's legal counsel outlined the principal legal terms and conditions of the proposed Merger Agreement, and other legal issues associated with the proposed business combination. Following the financial and legal presentations and the oral fairness opinion, and after further discussion, the SCM board unanimously approved the Merger Agreement and determined that the Merger and the terms of the Merger Agreement were advisable, fair to and in the best interests of the SCM stockholders.

On December 10, 2008, the Hirsch board of directors held a meeting at which the proposed transaction with SCM was further discussed and considered. Representatives of Imperial Capital telephonically rendered an opinion to the Hirsch board of directors that, as of that date, and subject to various assumptions, qualifications and limitations, the aggregate consideration to be paid by SCM in the Merger to the holders of Hirsch common stock, other than Lawrence W. Midland, was fair from a financial point of view to the Hirsch shareholders, other than to Mr. Midland, which opinion with such assumptions, qualifications and limitations, was subsequently confirmed in writing. A representative from Palmieri, Tyler, Wiener, Wilhelm & Waldron LLP summarized the key terms and conditions of the Merger Agreement and certain potential legal risks and issues associated with the proposed merger. Following the presentations and further discussion, the board of directors of Hirsch unanimously approved the Merger Agreement and determined that the proposed merger and the terms of the Merger Agreement were advisable, fair to and in the

best interests of the Hirsch shareholders.

On December 10, 2008 counsel for SCM and Hirsch finalized the Merger Agreement and related documents and the Merger Agreement was executed by the parties. SCM and Hirsch publicly announced the proposed merger on December 10, 2008, Pacific Standard Time, which was prior to the opening of trading on the Prime Standard Exchange on the morning of December 11, 2008, Central European Time.

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**The SCM Reasons for the Merger**

The SCM board of directors believes that the terms of the Merger Agreement and the transactions contemplated thereby are advisable, and in the best interests of, SCM and its stockholders, and has unanimously approved the Merger Agreement and the Merger. The SCM board of directors has concluded that the Merger with Hirsch 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. The SCM board of directors recommends that SCM stockholders vote in favor of the SCM proposals described in this joint proxy statement/information statement and prospectus.

In reaching its decision to approve the Merger, the SCM board of directors consulted with SCM's management, financial and legal advisors, and considered a number of factors, including the following factors, which the SCM board of directors viewed as supporting its recommendation:

the belief of the SCM board of directors that after the Merger SCM 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 methodologies of access for security systems;

the fact that both SCM and Hirsch are strong in the U.S. government sector, but have complementary areas of concentration (*i.e.*, Hirsch is focused on physical access and SCM is focused on PC and network (logical) access), and that Hirsch is strongly positioned in the U.S. commercial market, which provides a strong complement to SCM's activities in the enterprise and financial markets in Europe and Asia;

the expected synergies that will result from the Merger as a result of leveraging the existing channels and sales forces of both companies to reach more customers and to jointly develop new integrated products;

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;

the opinion of SCM's financial advisor that, as of December 9, 2008, and based upon and subject to the considerations described in its written opinion, the merger consideration to be paid by SCM pursuant to the Merger Agreement was fair to SCM from a financial point of view;

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

the cash position of each of SCM and Hirsch and the absence of any material debt of either of them;

the belief that the Merger would increase the overall level of resources available for sales, marketing, customer support, engineering and production across target markets and regions, provide access to Hirsch's distribution channels and allow SCM to leverage Hirsch's well-respected brand, systems-level selling model and the Hirsch Professional Services Group for development of customer-specific applications; and

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

During the course of its deliberations concerning the Merger, the SCM board of directors also identified and considered a variety of risks relating to the Merger, including the following:

the risk that the potential benefits sought in the Merger might not be realized;

the challenges, costs and diversion of management time associated with successfully integrating the products, technologies, marketing strategies and organizations of each company;

the risk of management and employee disruption associated with the Merger, including the risk that despite the efforts SCM after the Merger, key personnel might not remain employed by SCM;

the possibility that the Merger may not be completed and the potential adverse effect of the public announcement to that effect on the reputation of SCM; and

the other risks described in the section of this joint proxy statement/information statement and prospectus entitled Risk Factors.

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This discussion of information and factors considered by the SCM board of directors is not intended to be exhaustive, but is intended to summarize the material factors considered by the SCM board of directors. In view of the wide variety of factors considered, the SCM board of directors did not find it practicable to quantify or otherwise assign relative weights to the specific factors considered. However, after taking into account all of the factors set forth above, the SCM board of directors unanimously agreed that the Merger Agreement and the transactions contemplated thereby were fair to, and in the best interests of, SCM and the SCM stockholders, and that SCM should enter into the Merger Agreement.

**The Hirsch Reasons for the Merger**

The Hirsch board of directors has determined that the Merger is advisable, and fair to, and in the best interests of, Hirsch and its shareholders. The Hirsch board of directors recommends that Hirsch shareholders vote in favor of the Hirsch proposals described in this joint proxy statement/information statement and prospectus. In reaching its decision to approve the Merger, Hirsch's board of directors considered a number of factors, including the following, which Hirsch's board of directors viewed as supporting its recommendation:

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 not only of the business of Hirsch, but also of SCM;

SCM after the Merger will be well 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 methodologies of access for security systems;

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

the opinion of Imperial Capital, attached hereto as *Annex F*, a well respected investment banking firm with specific expertise in the area of security, that, as of December 10, 2008, and based on and subject to various assumptions, qualifications and limitations set forth in its opinion, the Aggregate Consideration to Non-Insiders (as defined in its opinion) in the transaction was fair, from a financial point of view, to the holders of Hirsch common stock, no par value, other than Lawrence W. Midland;

the fact that the proposal regarding the possible Merger was superior to contemplated transactions considered in connection with discussions with several other prospective acquirers over an extended period of time;

the conclusion of the board of directors of Hirsch that the Merger proposal offered a better alternative for the Hirsch shareholders than the possibility of implementing Hirsch's business plan on a stand-alone basis and deferring consideration of a business combination pending (i) a more favorable financial climate or (ii) possible realization of long anticipated government contracts for Hirsch products;

the expectation that the Merger will be treated as a reorganization for U.S. federal income tax purposes with the result that the Hirsch shareholders will generally not recognize taxable gain or loss for U.S. federal income tax purposes by reason of the receipt of shares of SCM common stock and the warrants to purchase shares of SCM common stock;

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

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 the making of such proposal;

the cash position of each of Hirsch and SCM and the absence of any material debt of either of them; and

the relatively senior age of Lawrence W. Midland, the President of Hirsch.

In the course of its deliberations, Hirsch's board of directors also considered a variety of risks and other countervailing factors related to entering into the Merger Agreement, including, without limitation, the following:

the fact that the number of shares of SCM common stock to be received by Hirsch shareholders does not change, regardless of any increase or decrease in the price of SCM shares prior to the closing of the Merger;



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the fact that Lawrence W. Midland is anticipated to be the only Hirsch representative on the SCM board of directors, without any voting agreement guarantying his election to the board, and that the current SCM board of directors and officers will have complete ultimate authority with respect to implementation of the Hirsch business plan;

the fact that the Hirsch shareholders will be unable to sell for a period of six months from the closing of the Merger 100% of the shares of SCM common stock received in the Merger and that they will be unable to sell 50% of the shares of SCM common stock received in the Merger for a period of nine months from the closing of the Merger;

the small daily volume of shares of SCM common stock presently traded on the NASDAQ Stock Market, which, as a practical matter, limits the liquidity of the shares of SCM common stock which will be received by the Hirsch shareholders;

the possibility that the Merger might not be completed and the potential adverse effect of the public announcement to that effect on the reputation of Hirsch;

the expected significant length of time (6-7 months) between signing the Merger Agreement and completing the Merger or terminating the Merger Agreement, and the restrictions on Hirsch's conduct of its business in the meantime;

the fact that following announcement of the Merger Agreement, Hirsch's relationship with employees, agents and customers might be negatively affected because of uncertainties surrounding Hirsch's future status and direction;

the amount (up to \$1.5 million plus the reimbursement of SCM's transaction expenses) and circumstances under which Hirsch may become liable to pay a termination fee to SCM and the potential effect of such termination fee in deterring other potential acquirers;

the fact that information contained in the S-4 registration statement regarding Hirsch, including without limitation, its operations, financial results, significant shareholders and related party transactions will be made publicly available to Hirsch's competitors, customers, employees and others (even if the Merger is not consummated for any reason); and

various other risks associated with SCM and the Merger, including the risks described in the section entitled Risk Factors in this joint proxy statement/information statement and prospectus.

The above discussion of information and factors considered by the Hirsch board of directors is not intended to be exhaustive, but is indicative of the material factors considered by the board. In view of the wide variety of factors they considered, the Hirsch board of directors did not find it practicable to quantify or otherwise assign relative weight to the specific factors considered. In addition, the Hirsch board of directors did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of the Hirsch board of directors may have given different weight to different factors. After taking into account all of the factors described above, however, the Hirsch board of directors unanimously determined that the Merger Agreement and the related transactions were advisable and fair to, and in the best interests of, Hirsch and its shareholders.

**SCM Financial Projections**

SCM provided financial projections for its business to Avondale SCM's financial advisor, for use in connection with its fairness analysis, summarized in the section of this joint proxy statement/information statement and prospectus entitled "The Merger - Opinion of the Financial Advisor of SCM," and to Imperial Capital for use in connection with Imperial Capital's fairness analysis, summarized in the section of the joint proxy statement/information statement and prospectus entitled "The Merger - Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch." Please note, however, that even though such projections were provided to Avondale and Imperial Capital, in rendering their respective fairness opinions, Avondale and Imperial Capital assumed that the value of SCM common stock would be equal to the market price for such shares, as further described in the case of Avondale, in the section entitled "The Merger - Opinion of the Financial Advisor of SCM" and in the case of Imperial Capital, in the section entitled "The Merger - Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch."

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(Dollars, in millions)	Fiscal Year Ending December 31,						
	2008A	2008B	2009A	2009B	2010	2011	2012
Net Revenue	\$ 27.9	\$ 29.9	\$ 40.0	\$ 45.0	\$ 48.8	\$ 55.0	\$ 61.0
<i>% Growth</i>	(8.4)%	(1.8)%	43.5%(1)	50.6%(2)	8.5%(3)	12.6%	10.9%
Cost of Revenue	15.4	16.3	21.3	23.7	25.8	30.7	33.9
Gross Profit	12.5	13.6	18.7	21.3	23.0	24.3	27.1
<i>% Margin</i>	44.9%	45.5%	46.6%	47.3%	47.1%	44.1%	44.4%
Operating Expenses							
Research & Development	3.1	3.1	2.2	2.6	2.8	2.9	3.0
Selling & Marketing	7.9	7.9	7.3	7.8	7.9	8.2	8.7
General & Administrative	9.2	9.3	9.1	9.2	9.9	10.1	10.4
Amortization of Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring and Other Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	20.2	20.3	18.6	19.6	20.5	21.2	22.1
<i>% of Net Revenue</i>	72.3%	67.8%	46.4%	43.5%	41.9%	38.6%	36.2%
EBIT	(7.6)	(6.7)	0.1	1.7	2.5	3.0	5.0
Depreciation & Amortization	0.3	0.3	0.3	0.3	0.3	0.3	0.3
EBITDA	(7.4)	(6.4)	0.3	2.0	2.8	3.3	5.3
<i>% Margin</i>	(26.4)%	(21.4)%	0.8%	4.4%	5.7%	6.0%	8.7%

(1) Percentage growth rate based on the net revenue figure provided in column 2008A.

(2) Percentage growth rate based on the net revenue figure provided in column 2008B.

(3) Percentage growth rate based on the net revenue figure provided in column 2009B.

SCM's management provided the above income statement projections for the years 2008 through 2012. For the years 2008 and 2009, SCM management provided two income statement projections (columns 2008-A and 2008-B, and columns 2009-A and 2009-B in the table above). The 2008 and 2009 projections were provided to appropriately reflect a possible range of potential growth of SCM's business in 2008 and 2009 in light of general economic conditions and the potential consequences of short-term trends to SCM's business. Such projections differ with respect to, among other items, the projections of net revenue, cost of revenue and certain operating expenses. Since the SCM income statement projections cover multiple years, such information by its nature becomes less certain with each successive year. At the time the SCM income statement projections were presented, SCM management believed that the revised income statement projections appropriately reflected the potential growth of SCM's business in light of the general economic conditions.

These SCM financial projections rely on numerous assumptions that included, among others, the assumptions listed below. SCM did not find it practicable to quantify or otherwise assign relative weights to the specific assumptions made in connection with the SCM financial projections:

SCM's business is government-driven, and the business will be less affected by the current global economic situation in 2009;

the security sector would outperform the overall economy;

the market would increasingly demand higher-security products, such as smart cards, biometrics and multi-factor authentication;

demand from security products from U.S. federal government agencies due to Federal Information Processing Standards (FIPS) 201 would increase in 2009, and in each year thereafter through 2012;

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the rate of growth in revenue for SCM's products is driven by major government related roll-outs, in particular the German eHealth initiatives will significantly contribute in the upcoming years;

gross margins would represent approximately the same percentages of revenue for each year as represented in the SCM financial projections for 2009;

SCM would successfully develop and sell new products and services including, but not limited to, its new family of contact and contactless smart card reader product line;

SCM would continue to regionally expand its global distribution network as well as its cooperation with new OEMs; and

no provision for the potential material effects of extraordinary business events, such as adverse regulatory developments, major unplanned new product launches or natural disasters.

There can be no guarantee that the assumptions on which the SCM financial projections are based are correct or will be realized. In addition, there can be no assurance that the SCM financial projections will be realized or that actual results will not be significantly higher or lower than projected.

The SCM financial projections set forth above are included in this joint proxy statement/information statement and prospectus only because this information was made available to Avondale for use in its fairness analysis provided to the SCM board of directors and to Imperial Capital for use in its fairness analysis provided to the Hirsch board of directors. The SCM financial projections were not prepared with a view to public disclosure or compliance with the published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The SCM financial projections do not purport to present operations in accordance with U.S. generally accepted accounting principles, or GAAP.

No independent accountants have compiled, examined or performed any procedures with respect to the SCM financial projections contained herein, nor have any independent accountants expressed any opinion or any other form of assurance on such information or its achievability or the assumptions on which they are based.

You are urged to read carefully these SCM financial projections together with the SCM financial statements, the Risk Factors, the summaries of the opinions of the financial advisor to SCM and Imperial Capital contained in the sections of this joint proxy statement/information statement and prospectus entitled "The Merger" Opinion of the Financial Advisor of SCM and "The Merger" Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch, respectively, the Written Opinion of Avondale Partners, LLC attached hereto as *Annex E* and the Written Opinion of Imperial Capital, LLC attached hereto as *Annex F*.

**Hirsch Financial Projections**

Hirsch provided preliminary income statement projections for its business in early November to SCM, Avondale Partners, SCM's financial advisor, for use in connection with Avondale's financial analysis, summarized in the section of this joint proxy statement/information statement and prospectus entitled "The Merger" Opinion of the Financial Advisor of SCM, and to Imperial Capital, for use in connection with Imperial Capital's rendering of its fairness opinion, summarized in the section of the joint proxy statement/information statement and prospectus entitled "The Merger" Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch. These preliminary income statement projections provided by Hirsch included a projection of annual revenue growth for Hirsch's



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business, as a stand-alone entity, in the years of 2009 to 2012 of 22% (2009), 18% (2010), 15% (2011) and 10% (2012). The preliminary Hirsch income statement projections are as follows:

(Dollars, in thousands)	Fiscal Year Ending November 30,				
	2008	2009	2010 (unaudited)	2011	2012
Revenue	\$ 23,000	\$ 28,000	\$ 33,000	\$ 38,000	\$ 41,800
<i>Growth Rate</i>		22%	18%	15%	10%
Direct Product Costs	7,590	9,240	10,890	12,540	13,794
<i>% of Revenue</i>	33%	33%	33%	33%	33%
Product Margin	15,410	18,760	22,110	25,460	28,006
<i>Product Margin</i>	67%	67%	67%	67%	67%
Operations	988	1,037	1,089	1,144	1,201
<i>Growth Rate</i>		5%	5%	5%	5%
Royalty / License	1,028	1,244	1,457	1,668	1,777
<i>% of Revenue</i>	4.5%	4.4%	4.4%	4.4%	4.3%
Total Other COGS	2,037	2,139	2,246	2,358	2,476
<i>Growth Rate</i>		5%	5%	5%	5%
Total Expenses	4,053	4,420	4,792	5,170	5,453
<i>% of Revenue</i>	18%	16%	15%	14%	13%
Gross Margin	11,357	14,340	17,318	20,290	22,553
<i>Gross Margin %</i>	49%	51%	52%	53%	54%
Sales & Marketing	4,853	5,290	5,554	5,832	6,123
<i>Growth Rate</i>		9%	5%	5%	5%
R&D	3,328	1,120	1,320	1,520	1,672
<i>% of Revenue</i>	14.5%	4.0%	4.0%	4.0%	4.0%
G&A	2,947	3,095	3,250	3,412	3,583
<i>Growth Rate</i>		5%	5%	5%	5%
Total Operating Expenses	11,128	9,504	10,124	10,764	11,378
Operating Income/EBITDA	229	4,836	7,194	9,526	11,174

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Subsequently, after careful review and consideration, Hirsch's management determined that its preliminary income statement projections would require revision to account for the impact of slowing U.S. and worldwide economic growth, disruption in the global financial markets, declining consumer and business confidence and other significant challenges affecting the economy negatively at that time. Hirsch also increased the expected net revenue figure for 2008 by \$400,000, to reflect more up-to-date information for the year. Accordingly, Hirsch revised its preliminary income statement projections to reflect these considerations and provided the revised income statement projections to SCM, Avondale Partners and Imperial Capital in mid-November. At the time the revised Hirsch income statement projections were presented, Hirsch management believed the revised income statement projections more appropriately reflected the potential growth of Hirsch's business in light of the general economic conditions. In the revised Hirsch income statement projections, the annual revenue growth rate of Hirsch's business, as a stand-alone entity, is stated as 6.4% in 2008 and projected to be 10% in the years 2009 through 2012. The revised Hirsch income statement projections are as follows:

(Dollars, in millions)	Fiscal Year Ending November 30,				
	2008	2009	2010	2011	2012
	(unaudited)				
Net Revenue	\$ 23.4	\$ 25.7	\$ 28.3	\$ 31.1	\$ 34.3
% Growth	6.4%	10.0%	10.0%	10.0%	10.0%
Cost of Revenue	7.7	8.5	9.3	10.3	11.3
Royalties to Related Parties	1.0	1.1	1.3	1.4	1.5
Total Cost of Revenues	8.8	9.6	10.6	11.6	12.8
Gross Profit	14.6	16.1	17.7	19.5	21.5
% Margin	62.5%	62.6%	62.6%	62.6%	62.8%
Operating Expenses					
Selling, General & Administrative	10.9	11.3	11.9	12.4	13.0
Research & Development	3.6	1.4	1.2	1.3	1.3
Depreciation & Amortization	0.1	0.1	0.1	0.1	0.1
Total Operating Expenses	14.6	12.8	13.2	13.8	14.4
% of Net Revenue	62.3%	49.8%	46.6%	44.3%	42.1%
EBIT	0.1	3.3	4.5	5.7	7.1
Depreciation & Amortization	0.1	0.1	0.1	0.1	0.1
EBITDA	0.2	3.4	4.6	5.8	7.2
% Margin	0.7%	13.2%	16.4%	18.7%	21.0%

The preliminary Hirsch income statement projections and the revised income statement projections rely on numerous assumptions that included, among others, the assumptions listed below. Hirsch did not find it practicable to quantify or otherwise assign relative weights to the specific assumptions made in connection with the Hirsch income statement projections:

the U.S. economy would begin recovering from the current state of economic recession in 2009;

the security sector would outperform the overall economy;

the rate of growth in revenue for Hirsch's products and services would continue at the same rates, respectively, as represented in the Projections for 2009;



gross margins would represent approximately the same percentages of revenue for each year as represented in the Projections for 2009;

operating expenses as a percentage of revenue would decrease substantially in 2009 due to lower research and development costs as major next generation product development projects wind down, then decrease moderately thereafter due to increased productivity and operating efficiency;

the market would increasingly demand higher-security products, such as smart cards, biometrics and multi-factor authentication;

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demand from security products from U.S. federal government agencies due to Federal Information Processing Standards (FIPS) 201 would increase in 2009 and each year thereafter through 2012;

Hirsch in 2009 would successfully develop and sell new products and services including but not limited to a next generation access controller and card reader product line, Hirsch-sourced cards and identity management solutions; and

no provision for the potential material effects of extraordinary business events, such as adverse regulatory developments, major unplanned new product launches or natural disasters.

There can be no guarantee that the preliminary Hirsch income statement projections and the revised Hirsch income statement projections will be realized, or that the assumptions on which they are based will prove to be correct.

As a private company, Hirsch has not previously made available to the public any projections as to its future financial performance. The preliminary Hirsch income statement projections and the revised Hirsch income statement projections set forth above are included in this joint proxy statement/information statement and prospectus only because this information was provided to Imperial Capital for use in its fairness analysis provided to the Hirsch board of directors and to Avondale for use in its fairness analysis provided to the SCM board of directors. The preliminary Hirsch income statement projections and the revised Hirsch income statement projections were not prepared with a view to public disclosure or compliance with the published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The preliminary Hirsch income statement projections and the revised Hirsch income statement projections do not purport to present operations in accordance with U.S. generally accepted accounting principles, or GAAP.

No independent accountants have compiled, examined or performed any procedures with respect to the preliminary Hirsch income statement projections and the revised Hirsch income statement projections contained herein, nor have any independent accountants expressed any opinion or any other form of assurance on such information or its achievability or the assumptions on which they are based.

As Imperial Capital was informed by Hirsch management that the revised Hirsch income statement projections represented the most likely future results of Hirsch given the market conditions at that time, Imperial Capital reviewed and relied upon the revised Hirsch income statement projections (but not the preliminary Hirsch income statement projections) in rendering its opinion of fairness, as summarized in the section of this joint proxy statement/information statement and prospectus entitled *The Merger Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch and the Written Opinion of Imperial Capital, LLC attached hereto as Annex F.*

Avondale reviewed and relied upon both the preliminary Hirsch income statement projections and the revised Hirsch income statement projections in rendering its opinion of fairness, as summarized in the section of this joint proxy statement/information statement and prospectus entitled *The Merger Opinion of the Financial Advisor of SCM* and attached hereto as *Annex E.* For purposes of its financial analysis, however, Avondale made certain adjustments to the preliminary Hirsch income statement projections and the revised Hirsch income statement projections. In the preliminary Hirsch income statement projections, Avondale adjusted the projected amount of R&D expenses incurred by Hirsch to reflect what was believed to be a more normalized level of R&D expense (based on a 5-year development cycle and historic trends), among other adjustments. Projected R&D spending for 2008 was decreased by \$2.0 million and increased by \$500,000 in each of the four subsequent years. The resulting set of adjusted preliminary Hirsch income statement projections is called the *Hirsch Case* in the section of this joint proxy statement/information statement and prospectus entitled *The Merger Opinion of the Financial Advisor of SCM* and in the *Written Opinion of Avondale Partners, LLC, attached hereto as Annex E.* In the revised Hirsch income statement projections, among

other adjustments, Avondale (i) again adjusted the projected amount of R&D expenses in the manner discussed above, (ii) adjusted the revenue figures to reflect the acquisition by Hirsch of Hirsch EMEA, Inc., which was not reflected in the revised Hirsch income statement projections (projected revenue was increased \$0 in 2008, \$2 million in 2009, \$3 million in 2010, \$4 million in 2011 and \$4 million in 2012) and (iii) set the 2008 net revenue figure at \$23,000,000 to match the 2008 revenue figure in the preliminary Hirsch income statement projections. The resulting set of adjusted revised Hirsch income statement projections is called the "SCM Case" in the section of this joint proxy statement/information statement and

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prospectus entitled *The Merger Opinion of the Financial Advisor of SCM* and in the Written Opinion of Avondale Partners, LLC, attached hereto as *Annex E*.

You are urged to read carefully these Hirsch income statement projections together with the Hirsch financial statements, the Risk Factors, the summaries of the opinions of the financial advisor to SCM and Imperial Capital contained in the sections of this joint proxy statement/information statement and prospectus entitled *The Merger Opinion of the Financial Advisor of SCM* and *The Merger Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch*, the Written Opinion of Avondale Partners, LLC attached hereto as *Annex E* and the Written Opinion of Imperial Capital, LLC attached hereto as *Annex F*.

**Opinion of the Financial Advisor of SCM**

At the December 9, 2008 meeting of SCM's board of directors, Avondale Partners (Avondale) rendered its oral opinion to the board of directors, subsequently confirmed in writing, to the effect that, as of December 9, 2008, and based upon and subject to certain matters stated therein, the consideration to be paid by the SCM in the Merger is fair, from a financial point of view, to SCM.

**The full text of Avondale's written opinion, dated December 9, 2008, delivered to the SCM board of directors, which sets forth the assumptions made, matters considered and limitations in the review undertaken, is attached as *Annex E* to this joint proxy statement/information statement and prospectus, and the written opinion is incorporated herein by reference. The opinion was reviewed and approved by Avondale's Fairness Opinion Committee in conformity with policies and procedures established under the requirements of Rule 2290 of the NASD Rules of the Financial Institutions Regulatory Authority. You should read the opinion carefully and in its entirety. The following summary of the Avondale opinion is qualified in its entirety by reference to the full text of the opinion.**

Avondale, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, corporate restructurings, strategic alliances, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the past three years, Avondale has provided investment banking, financial advisory and other financial services to SCM, for which Avondale received compensation, including, among other things, having acted as exclusive sell-side advisor for SCM in the divestiture of one of its divisions and the corresponding fairness opinion, for which Avondale received compensation. Avondale has acted as financial advisor to the SCM board of directors in connection with the Merger and will receive a fee for its services, a significant portion of which is contingent upon consummation of the Merger, and received a fee for its services upon delivery of this opinion, which fee was not contingent upon consummation of the Merger.

The SCM board of directors, and not Avondale, determined the amount of consideration to be paid by SCM in the Merger and Avondale's opinion does not constitute a recommendation to the SCM stockholders or any other stockholders as to how such stockholders or any other stockholder should vote with respect to the Merger. The opinion addresses only the fairness, from a financial point of view, the consideration to be paid by SCM in the Merger. It does not address the relative merits of the Merger as compared to alternative transactions or strategies that may be available to SCM, nor does it address SCM's underlying decision to engage in the Merger.

The SCM board of directors did not impose any limitations on Avondale with respect to the investigations made or procedures followed in rendering its opinion. Further, SCM did not request the advice of Avondale with respect to alternatives to the Merger, and Avondale did not advise SCM with respect to alternatives to the Merger or SCM's underlying decision to proceed with or effect the Merger.

Avondale's opinion and its related presentation were among the many factors that the SCM board of directors took into consideration in making its determination to approve, and to recommend that SCM's stockholders approve, the Merger.

The following description of Avondale's opinion is only a summary of the analyses and examinations that Avondale deems material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Avondale. The preparation of a fairness opinion necessarily is not susceptible to partial analysis or summary description. Avondale believes that its analyses and the summary set forth below must be

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considered as a whole, and that selecting portions of its analyses and of the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to the SCM board of directors. In addition, Avondale may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions. The fact that any specific analysis has been referred to in the summary below is not meant to indicate that this analysis was given greater weight than any other analysis described below and should not be taken to be the complete view of Avondale, with respect to the actual value of Hirsch.

In performing its analyses, Avondale made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of SCM. The analyses performed by Avondale are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were prepared solely as part of the analysis performed by Avondale with respect to whether the consideration to be paid by SCM in the Merger is fair, from a financial point of view, to SCM and were provided to the SCM board of directors in connection with the delivery of Avondale's opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future.

No company or transaction used in the comparable company or comparable transaction analyses described below is identical to Hirsch or the Merger. Accordingly, an analysis of the results of such analyses is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which Hirsch, and the Merger are being compared.

***Procedures Followed***

In connection with its opinion, Avondale:

reviewed certain financial statements of Hirsch for recent years and certain other relevant financial and operating data of Hirsch made available to it by senior management of Hirsch;

reviewed a draft of the Merger Agreement, such draft dated December 7, 2008;

compared Hirsch from a financial point of view with certain publicly traded companies in the information technology security and access control industries that Avondale deemed relevant;

considered the financial terms, to the extent publicly available, of selected recent business combinations in the information technology security and access control industries that Avondale deemed to be comparable, in whole or in part, to the Merger;

reviewed the financial terms, to the extent publicly available, of certain other transactions Avondale believed to be reasonably comparable to the Merger;

reviewed financial forecasts relating to the business and prospects of Hirsch and the combined company prepared by the respective managements of SCM and Hirsch;

held discussions with senior management of SCM and Hirsch regarding Hirsch's operating history, products and services, sales and marketing and the prospects of Hirsch and the combined company;

took into account Avondale's assessment of general economic, market and financial and other conditions and its experience in other transactions, as well as its expertise in securities valuation and its knowledge of the industry in which Hirsch operates; and

performed other such analyses and examinations and considered such other information and financial criteria as Avondale has deemed appropriate.

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In preparing its opinion, Avondale did not assume any responsibility to independently verify the information referred to above. Instead, with SCM's consent, Avondale relied on the information being accurate and complete. Avondale also made the following assumptions, in each case with SCM's consent, that:

the internal operating data and financial analyses and forecasts supplied to Avondale were reasonably prepared on bases reflecting the best currently available estimates and judgments of Hirsch's senior management as to Hirsch's recent and likely future performance;

the Merger will be consummated on the terms and subject to the conditions described in the Merger Agreement;

all necessary governmental and regulatory approvals and third party consents will be obtained on terms and conditions that will not have a material adverse effect on Hirsch; and

the final Merger Agreement does not differ materially from the draft of the Merger Agreement Avondale reviewed.

In addition, for purposes of its opinion, Avondale relied on independent accountants as to financial reporting matters with respect to SCM, the Merger and the Merger Agreement; and did not assume responsibility for making an independent physical inspection or appraisal of any of the assets, properties or facilities of Hirsch. Avondale did not assume responsibility for any legal matters relating to SCM, the Merger or the Merger Agreement.

Avondale's opinion was necessarily based upon market, economic, financial and other conditions as they existed on, and can be evaluated as of, the date of its opinion. Any change in such conditions would require a reevaluation of Avondale's opinion. Accordingly, although subsequent developments may affect its opinion, Avondale has not assumed any obligation to update or revise its opinion.

***Summary of Financial and Other Analyses***

As part of the financial analyses, Avondale calculated a low and high range for the implied merger enterprise value (which Avondale defined as equity value plus debt less cash and cash equivalents) of Hirsch implied by the transaction. As of November 30, 2008, Hirsch had approximately \$5,700,000 in cash and no debt.

The low range for the enterprise value of Hirsch is \$24,029,190 and is based on the following merger consideration: \$14,117,205 in cash, 9,411,470 shares of SCM's common stock valued at \$13,646,632, 4,705,735 in newly issued warrants to purchase SCM common stock valued at \$1,810,254, and 62,000 currently outstanding Hirsch warrants to be converted to warrants to purchase SCM common stock valued at \$155,099.

The high range for the enterprise value of Hirsch is \$27,361,597 and is based on the following value of the merger consideration: \$14,117,205 in cash, 9,411,470 shares of SCM's common stock valued at \$15,114,821, 4,705,735 in newly issued warrants for SCM common stock valued at \$3,588,692, and 62,000 currently outstanding Hirsch warrants to be converted to warrants for SCM common stock valued at \$240,879.

<b>Merger Consideration</b>	<b>Low Range</b>	<b>High Range</b>
Cash	\$ 14,117,205	\$ 14,117,205
Common Stock	13,646,632	15,114,821



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Warrants	1,810,254	3,588,692
Converted Warrants	155,099	240,879
Equity Value	\$ 29,729,190	\$ 33,061,597
Cash	5,700,000	5,700,000
Debt		
Enterprise Value	\$ 24,029,190	\$ 27,361,597

The low value of the SCM common stock to be issued is valued at \$13,646,632, based on a closing price of \$1.45 per share as of December 5, 2008. The high value of the SCM common stock to be issued is valued at \$15,114,821, based on the 30-day volume weighted average closing price of \$1.61 per share as of December 5, 2008.

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The 4,705,375 newly issued warrants to purchase SCM common stock were valued using the Black-Scholes model. The low range of the warrants value was calculated utilizing a \$3.00 strike price, five-year term, and underlying SCM common stock price of \$1.45 (based on the closing stock price as of December 5, 2008), and historical volatility of 50.429%. This represented a measure of volatility, which was based on a 365-day period from July 31, 2007 to July 31, 2008, prior to the volatility during the recent economic downturn. The high range of the warrants value was calculated utilizing a \$3.00 strike price, five-year term, an underlying SCM common stock price of \$1.45 as of December 5, 2008, and historical volatility of 81.615%. This represented a current measure of volatility, which was based on a 365-day period from December 4, 2007 to December 4, 2008. The 62,000 currently outstanding Hirsch warrants are to be converted into newly issued warrants to purchase SCM common stock utilizing the conversation ratio as stated in the draft Merger Agreement, dated December 7, 2008. After conversion, the warrants were valued using the Black-Scholes model. The value of each warrant to be converted varied based on the term and exercise price of each warrant. The low range was calculated using a historical volatility of 50.429%. The high range was calculated using a historical volatility 81.615%.

The table below lists the relevant enterprise value multiples based on the latest twelve months ( LTM ), the Hirsch case and the SCM case of revenue and earnings before interest, taxes, depreciation and amortization before taxes ( EBITDA ) of the proposed Merger.

**Proposed Merger Multiples**

<b>Enterprise Value to:</b>	<b>Low Range</b>	<b>High Range</b>
<b>Revenue</b>		
LTM Revenue	1.0x	1.2x
2008E Hirsch Case	1.0x	1.2x
2008E SCM Case	1.0x	1.2x
2009E Hirsch Case	0.9x	1.0x
2009E SCM Case	0.9x	1.0x
<b>EBITDA</b>		
LTM EBITDA	8.2x	9.3x
2008E Hirsch Case	10.8x	12.3x
2008E SCM Case	10.8x	12.3x
2009E Hirsch Case	5.5x	6.3x
2009E SCM Case	6.1x	7.0x

The following represents a summary of the material financial analyses performed by Avondale in connection with providing its opinion to the SCM board of directors. Some of the summaries of financial analyses performed by Avondale include information presented in tabular format. In order to fully understand the financial analyses performed by Avondale, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Avondale.

**Table of Contents***Precedent Transactions Analysis*

Based on public and other available information, Avondale calculated the multiples of enterprise value (which Avondale defined as equity value plus debt less cash and cash equivalents) to the LTM revenues and LTM earnings before interest, taxes, depreciation and amortization (EBITDA) implied in the following acquisitions of companies in the electronic access control industry that have been announced since May 22, 2006:

<b>Date Announced</b>	<b>Name of Acquirer</b>	<b>Name of Target</b>
9/22/2008	Francois-Charles Oberthur	Oberthur Technologies
9/20/2008	Vector Capital	Aladdin Knowledge Systems Ltd.
7/10/2008	Aladdin Knowledge Systems	Secure Computing Corp., Secure Safeword
6/25/2008	Aladdin Knowledge Systems	Eutronsec S.p.A
3/23/2008	L-1 Identity Solutions, Inc.	Digimarc Corp.
2/13/2008	Thoma Cressey Bravo	Macrovision Corp., Software Business
1/7/2008	L-1 Identity Solutions, Inc.	Bioscrypt Inc.
10/12/2007	Endace	Applied Watch Technologies
6/12/2007	SonicWALL, Inc	Aventail Corp.
3/5/2007	Vector Capital	SafeNet, Inc.
10/10/2006	Oberthur Technologies	I M Technologies Ltd.
7/14/2006	L-1 Identity Solutions, Inc.	Irdian Technologies, Inc.
5/22/2006	HID	Fargo Electronics

The following table sets forth the implied revenue and EBITDA transaction multiples indicated by the precedent transaction analysis, multiples implied by the proposed Merger, and the respective implied enterprise values:

<b>(Dollars in millions)</b>	<b>Low</b>	<b>High</b>
<b>Enterprise Value/Revenue:</b>		
Precedent Transaction Comparables Multiple	0.7x	8.0x
<i>Implied Enterprise Value</i>	\$ 16.1	\$ 189.3
Proposed Merger Multiple	1.0x	1.2x
<i>Implied Enterprise Value</i>	\$ 24.0	\$ 27.4
<b>Enterprise Value/EBITDA:</b>		
Precedent Transaction Comparables Multiple	8.5x	29.1x
<i>Implied Enterprise Value</i>	\$ 24.8	\$ 85.5
Proposed Merger Multiple	8.2x	9.3x
<i>Implied Enterprise Value</i>	\$ 24.0	\$ 27.4

Avondale calculated the implied enterprise value based on the range of revenue and EBITDA valuation multiples based on the precedent transactions analysis. This analysis resulted in an implied enterprise value range of \$16.1 million to \$189.3 million based on LTM revenue multiples and an implied enterprise value range of \$24.8 million to \$85.5 million based on LTM EBITDA multiples, which compares to the implied merger enterprise value of \$24.0 million to \$27.4 million.

*Comparable Company Analysis*

Based on public and other available information, Avondale calculated the multiples of enterprise value (which Avondale defined as equity value, plus debt, less cash and cash equivalents) to the latest twelve months (LTM), estimated calendar year 2008 (2008E), and estimated calendar year 2009 (2009E) revenues and earnings before interest, taxes, depreciation and amortization ( EBITDA ) for companies in the electronic access control industry. The estimated financial data for the comparable companies was based on consensus estimates from Bloomberg.

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Avondale believes that the companies listed below have some operations similar to some of the operations of Hirsch, but noted that none of these companies have the same management, composition, size, or combination of businesses as Hirsch:

G4S plc.;

L-1 Identity Solutions, Inc.;

Cogent Systems;

Vasco Data Security International, Inc.;

Entrust, Inc.;

Aladdin Knowledge Systems;

Actividentity Corp.;

Gemalto N.V.; and

On Track Innovations Ltd.

The following table sets forth the multiples indicated by this analysis:

**Comparable Company Analysis**

<b>(Dollars, in millions)</b> <b>Enterprise Value to:</b>	<b>Multiple</b>		<b>Implied Enterprise Value</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
			<b>(In millions)</b>	
LTM Revenue	0.5x	8.2x	\$ 11.1	\$ 192.2
2008E Revenue (Hirsch Case)	0.5x	6.9x	\$ 11.0	\$ 159.4
2008E Revenue (SCM Case)	0.5x	6.9x	\$ 11.0	\$ 159.4
2009E Revenue (Hirsch Case)	0.5x	5.7x	\$ 13.0	\$ 159.3
2009E Revenue (SCM Case)	0.5x	5.7x	\$ 12.6	\$ 155.3
LTM EBITDA	4.9x	19.9x	\$ 14.4	\$ 58.4
2008E EBITDA (Hirsch Case)	4.9x	15.8x	\$ 11.0	\$ 35.2
2008E EBITDA (SCM Case)	4.9x	15.8x	\$ 11.0	\$ 35.2
2009E EBITDA (Hirsch Case)	4.5x	13.1x	\$ 19.7	\$ 56.9
2009E EBITDA (SCM Case)	4.5x	13.1x	\$ 17.8	\$ 51.6
Proposed Merger Enterprise Value			\$ 24.0	\$ 27.4

The comparable company analysis resulted in an implied enterprise value range of \$11.0 million to \$192.9 million based on LTM, 2008E, and 2009E revenues. Based on LTM, 2008E, and 2009E EBITDA, the comparable company analysis resulted in an implied enterprise value range of \$11.0 million to \$58.4 million. This compares to the implied merger enterprise value of \$24.0 million to \$27.4 million.

*Discounted Cash Flow Analysis*

Avondale performed discounted cash flow analyses for the projected cash flows of Hirsch for the fiscal years ending December 31, 2009 through December 31, 2012. Avondale performed these discounted cash flow analyses on the Hirsch case and SCM case. For both of the cases, Avondale used a range of discount rates (14.0% to 22.0%) and terminal multiples (4.0x to 12.0x) based on forecasted EBITDA for the fiscal year ending December 31, 2012 to

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calculate a range of implied enterprise values. The following table sets forth the implied values indicated by the analyses:

(In millions)	Hirsch Case		SCM Case	
	Low	High	Low	High
Implied Enterprise Value	\$ 48.6	\$ 64.0	\$ 38.0	\$ 49.8
Proposed Merger Enterprise Value	\$ 24.0	\$ 27.4	\$ 24.0	\$ 27.4

The discounted cash flow analysis based on the Hirsch case resulted in an implied enterprise value range of \$48.6 million to \$64.0 million. The discounted cash flow analysis based on the SCM case resulted in an implied enterprise value range of \$38.0 million to \$49.8 million. These cases compare to the implied merger enterprise value of \$24.0 million to \$27.4 million.

*General*

Avondale became entitled to a fixed fee of \$150,000 upon its completion of the work necessary to render an opinion, regardless of the conclusion reached therein, which is not contingent upon consummation of the Merger. Avondale is entitled to additional fees contingent upon consummation of the Merger, including a payment based upon a calculation of a percentage of the certain consideration paid by SCM to Hirsch shareholders in connection with the Merger. Further, SCM has agreed to reimburse Avondale for its reasonable out-of-pocket expenses incurred in connection with the engagement, including reasonable attorneys' fees and expenses, and to indemnify Avondale, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against specific liabilities, including liabilities under applicable securities laws.

In the ordinary course of its business, Avondale may trade in the equity securities of SCM for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in these securities.

**Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch**

Pursuant to an engagement letter dated October 27, 2008, Hirsch retained Imperial Capital, LLC ( Imperial Capital ) to render an opinion to the board of directors of Hirsch as to the fairness, from a financial point of view, of the merger consideration to be received by the holders of Hirsch common stock, pursuant to the Merger. Hirsch selected Imperial Capital to render an opinion because Hirsch considers Imperial Capital to be a well-respected investment banking firm with extensive experience in dealing with companies in the security industry.

Imperial Capital 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, no par value, other than Lawrence W. Midland (as used in this section, such holders of Hirsch common stock excluding Lawrence W. Midland, the Non-Insider Shareholders ).

The full text of the written opinion of Imperial Capital, dated December 10, 2008, which sets forth, among other things, assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as *Annex F* to this joint proxy statement/information statement and prospectus. The following summary of Imperial Capital's opinion is qualified in its entirety by reference to the full text of the opinion. The opinion expressed by Imperial Capital was provided solely for the benefit and use of the board of directors of Hirsch (and was not rendered or directed to Hirsch's shareholders, SCM, or SCM's board of directors or shareholders or any

other person or persons) in connection with its consideration of the Merger, and such opinion only addresses whether, as of the date of such opinion, the Aggregate Consideration to Non-Insiders was fair, from a financial point of view, to the Non-Insider Shareholders, and does not address (a) whether the Merger was fair, from a financial point of view, to the SCM stockholders, or (b) any other aspect of the proposed Merger.

Imperial Capital's opinion does not constitute a recommendation as to any action the board of directors of Hirsch or any shareholder of Hirsch (or the board of directors of SCM or any stockholder of SCM) should take in connection with the Merger or any aspect thereof and is not a recommendation as to whether or not any holder of shares of Hirsch common stock (or any holder of shares of SCM common stock) should tender their shares in connection with the Merger or how any holder of Hirsch common stock (or any holder of SCM common stock)



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should vote with respect to the Merger. Nor does such opinion indicate that the consideration received by the holders of Hirsch common stock is the best possible attainable under any circumstances. The opinion is solely intended for the benefit and use of Hirsch's board of directors and as such is not to be relied upon by any other person or used for any other purpose or reproduced, disseminated, summarized, quoted from or referred to at any time, in whole or in part, without Imperial Capital's prior written consent, which shall not be unreasonably withheld. Imperial Capital has, however, consented to the disclosure of its opinion in this joint proxy statement/information statement and prospectus as provided in its written consent attached hereto as Exhibit 23.1 hereto. You are urged to read the opinion carefully and in its entirety.

The following is a summary of the material financial analyses performed by Imperial Capital in connection with rendering its opinion. The summary of the financial analyses is not a complete description of all of the analyses performed by Imperial Capital. **THE IMPERIAL CAPITAL OPINION IS BASED ON THE TOTALITY OF THE VARIOUS ANALYSES THAT IT PERFORMED, AND NO PARTICULAR PORTION OF THE ANALYSIS HAS ANY MERIT STANDING ALONE.**

While this summary describes the analysis and factors that Imperial Capital deemed material in rendering the opinion, it is not a comprehensive description of all analyses and factors considered by Imperial Capital. The preparation of a fairness opinion is a complex process that involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or a summary description. In arriving at its opinion, Imperial Capital did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Imperial Capital believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading or incomplete view of the evaluation process underlying its opinion. Several analytical methodologies were employed and no one method of analysis should be regarded as critical to the overall conclusion reached by Imperial Capital. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The conclusion reached by Imperial Capital is based on all analyses and factors taken, as a whole, and also on application of Imperial Capital's own experience and judgment. This conclusion may involve significant elements of subjective judgment and qualitative analysis. Imperial Capital gives no opinion as to the value or merit standing alone of any one or more parts of the analysis it performed. In performing its analyses, Imperial Capital made numerous assumptions with respect to Hirsch's performance, the industry outlook, general business and other conditions and matters many of which are beyond the control of Hirsch or Imperial Capital. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Accordingly, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which these businesses actually may be sold in the future, and these estimates are inherently subject to uncertainty.

In connection with this opinion, Imperial Capital made such reviews, analyses and inquiries as they deemed necessary and appropriate under the circumstances. No limits were placed on Imperial Capital by Hirsch or its board of directors in terms of the information to which they had access or the matters they could consider. Imperial Capital's due diligence with regards to the proposed Merger included only the items summarized below:

Hirsch's audited financial statements for its fiscal years ended 2005, 2006 and 2007 prepared and approved by Hirsch's management;

Hirsch's unaudited financial statements for its year-to-date ended September 30, 2007 and September 30, 2008 prepared and approved by Hirsch's management;

SCM's audited financial statements for its fiscal years ended 2005, 2006 and 2007, as contained in SCM's Annual Reports on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 18, 2008, respectively;

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SCM's unaudited financial statements for its fiscal quarter ended March 31, 2007 and 2008, June 30, 2007 and 2008, September 30, 2007 and 2008, as contained in SCM's Quarterly Report on Form 10-Q, filed with the SEC on May 14, 2008, August 12, 2008 and November 10, 2008, respectively;

income statement projections for SCM for calendar years 2008 – 2012 prepared and approved by SCM's management;

income statement projections for Hirsch for calendar years 2008 – 2012 prepared and approved by Hirsch's management;

Hirsch balance sheet dated as of October 31, 2008 prepared and approved by Hirsch's management;

an unexecuted merger agreement draft dated November 18, 2008, by and among Hirsch, Merger Sub and SCM, excluding the schedules and exhibits thereto;

certain other publicly available financial data for certain companies that Imperial Capital deemed comparable or otherwise relevant to Hirsch or SCM and the terms of recent transactions that Imperial Capital considered comparable or otherwise relevant to the Merger, including, without limitation, publicly available prices; and

the reported price and trading activities for the shares of common stock of SCM.

For the purposes of rendering its opinion Imperial Capital assumed that (a) there were and will be no dissenting shares in connection with the Merger, (b) 4,705,735 shares of Hirsch common stock, no par value, will be outstanding and held by its shareholders as of immediately prior to the consummation of the Merger, of which 633,000 will be held by Lawrence W. Midland, as of immediately prior to the effective time of the Merger, and (c) the Maximum Number of Company Shares as defined in the merger agreement draft equaled 4,705,735 shares of common stock. Please note that references in this section entitled "Opinion of Imperial Capital, LLC to the Board of Directors of Hirsch" of this joint proxy statement/information statement and prospectus to the merger agreement are references to the draft of the merger agreement described above dated November 18, 2008 (that did not contained exhibits or schedules there) that was provided by Hirsch to Imperial Capital for due diligence purposes in rendering its opinion.

Other than with respect to the Egis Indication (described below), Imperial Capital was not requested to, and did not, (i) initiate or participate in any discussions or negotiations with, or solicit any indications of interest from, third parties with respect to the Merger, the assets, businesses or operations of Hirsch, or any alternatives to the Merger, (ii) negotiate the terms of the Merger, (iii) advise the board of directors of Hirsch, SCM, or any other party with respect to alternatives to the Merger, (iv) assist the Hirsch board of directors in determining the amount of the consideration to be paid in connection with the Merger, or (v) recommend to the Hirsch board of directors the amount of consideration to be paid in connection with the Merger.

Certain principals of Imperial Capital are members of the general partnership that manages an investment fund named Egis Capital (Egis). Egis made a preliminary offer to purchase Hirsch in April 2008 (the Egis Indication), which offer was rejected by Hirsch, and which is discussed in the section entitled "The Merger – Background of the Development of the Merger."

In connection with its opinion, Imperial Capital conducted such analyses as it deemed appropriate, however, the information it utilized in conducting such analyses was limited to solely the information described above. With respect to financial estimates and projections provided to Imperial Capital, it assumed without independent verification that they had been reasonably prepared on bases reflecting the best then available estimates and judgments by management

as to the future results of operations, synergies and financial performance of Hirsch and SCM to which such estimates and projections related and assumed that such results of operations, synergies and financial performance would be realized. Imperial Capital also assumed that there had been no material change in the assets, financial condition or business of Hirsch or SCM since the date of the most recent Hirsch and SCM financial statements made available to Imperial Capital. No facts actually came to Imperial Capital's attention that would cause it to believe that such assumptions were invalid as a whole. Imperial Capital further relied upon the assurance of Hirsch's management that they were unaware of any facts that would make the information provided to Imperial Capital incomplete or misleading in any material respect.

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Imperial Capital did not independently verify the accuracy and completeness of the information supplied to it with respect to Hirsch or SCM, relied on it being complete and accurate in all material respects and did not assume any responsibility for independent verification of such information. Imperial Capital did not meet with or have any discussions with any representatives of SCM or Hirsch (other than members of their respective senior management) including SCM's and Hirsch's independent accounting firms. Imperial Capital did not make any physical inspection or independent appraisal of any of the properties or assets of Hirsch or SCM, did not make an independent appraisal or evaluation of Hirsch's or SCM's assets or liabilities and was not provided with such an evaluation or appraisal. Imperial Capital did not estimate, and expressed no opinion regarding, the liquidation value of any entity. With Hirsch's board of directors' consent, Imperial Capital did not undertake an independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities to which Hirsch or SCM was or may have been a party or was or may have been subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which Hirsch or SCM was or may have been a party or was or may have been subject.

The merger agreement draft that Imperial Capital was provided did not contain exhibits or schedules. As such, Imperial Capital assumed that the fairness to the Non-Insider Shareholders of the Aggregate Consideration to Non-Insiders was not impacted by the presence or omission of the schedules and exhibits to the merger agreement draft. Imperial Capital did not review any ancillary agreement or any other document, other than as explicitly listed in the opinion, related to the Merger. Imperial Capital relied upon and assumed, without independent verification, that (i) the Merger would be consummated as described in the form reviewed by Imperial Capital without any material amendments or modifications thereto, (ii) that all representations and warranties in the merger agreement draft of the parties thereto were true and accurate in all respects, (iii) the Merger would be consummated in a manner that complied in all respects with all applicable federal and state statutes, rules and regulations, and (iv) all governmental, regulatory, and other consents and approvals necessary for the consummation of the Merger would be obtained and that no delay, limitations, restrictions or conditions would be imposed or amendments, modifications or waivers made that would result in the disposition of any material portion of the assets of Hirsch or SCM, or otherwise have an adverse effect on Hirsch or SCM or any expected benefits of the Merger.

Imperial Capital was not requested to opine as to, and its opinion did not express an opinion as to or otherwise address:

the underlying business decision of Hirsch or any other party to proceed with or effect the Merger;

the terms or impact of any arrangements, understandings, agreements or documents related to, or the form or structure or any other portion or aspect of, the Merger or otherwise (other than the Aggregate Consideration to Non-Insiders to the extent expressly specified in the opinion), including, without limitation, (1) the form or structure of the Aggregate Consideration to Non-Insiders or any component thereof, (2) any voting agreement (including but not limited to the Voting Agreement referenced in the merger agreement draft) or shareholders agreement (including but not limited to the Shareholders Agreement referenced in the merger agreement draft), (3) any options or warrants to acquire Hirsch securities, (4) the Secure Agreements (as defined in the merger agreement draft), and (5) the Preferred Stock Rights Agreement (as defined in the merger agreement draft) or any waiver of rights thereunder;

the impact of any transfer restrictions on the securities of SCM, whether imposed by law or contract, including, without limitation, those restrictions contained in the lock-up or similar provisions of the merger agreement draft;

the fairness of any portion or aspect of the Merger to the holders of any Hirsch options or warrants;

the relative merits of the Merger as compared to any alternative business strategies that might exist for Hirsch or the effect of any other transaction in which Hirsch might engage;

the fairness of any portion or aspect of the Merger to any one class or group of Hirsch's securityholders vis-à-vis any other class or group of Hirsch's securityholders (including, without limitation, the allocation of any consideration amongst or within such classes or groups of securityholders);

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the solvency, creditworthiness or fair value of Hirsch or SCM or any other participant in the Merger under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters;

any legal, tax or accounting issues concerning the Merger or the legal or tax consequences of the Merger to Hirsch or its securityholders or any other party; or

the amount or nature of any compensation to any officers, directors or employees of Hirsch, or any class of such persons, relative to the consideration to be received by the other holders of Hirsch's common stock in the Merger or with respect to the fairness of any such compensation.

Furthermore, no opinion, counsel or interpretation was intended or given in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. Imperial Capital assumed that such opinions, counsel or interpretations were or would be obtained from appropriate professional sources. In addition, and without in any way modifying or limiting any other assumptions or limitations contained in Imperial Capital's opinion, its opinion does not address or take into account (i) any of Hirsch's royalty agreements or related party transactions, including but not limited to those involving Secure Keyboards, Ltd. and Secure Networks, Ltd., or (ii) whether Hirsch could carry a higher valuation if such agreements and transactions were eliminated or restructured.

The basis and methodology for Imperial Capital's opinion have been designed specifically for the express purposes of the board of directors and may not translate to any other purposes.

To the extent that any of the foregoing assumptions or any of the facts on which Imperial Capital's opinion is based proves to be untrue in any material respect, its opinion cannot and should not be relied upon.

Imperial Capital delivered its opinion effective as of December 10, 2008, and such opinion was approved by Imperial Capital's Fairness Opinion Committee as of such date pursuant to its written procedures for approval of fairness opinions. The opinion is necessarily based on business, economic, market and other conditions as they existed and could be evaluated as of such date. It should be understood that subsequent developments may affect the opinion and that Imperial Capital does not have any obligation to update, revise or reaffirm the opinion or otherwise comment on or consider events occurring after such date. For example, Imperial Capital did not take into account the effect of the Hirsch EMEA purchase on its opinion since such transaction occurred after the date that Imperial Capital rendered its opinion.

The decision as to whether to proceed with the Merger or any related transaction may depend on an assessment of factors unrelated to the financial analysis on which Imperial Capital's opinion is based. As a result, the opinion of Imperial Capital was only one of many factors taken into consideration by the Hirsch board of directors in making its determination with respect to the Merger.

In preparing its opinion, Imperial Capital performed certain financial and comparative analyses summarized in the following paragraphs.

***Valuation of Merger Consideration***

For purposes of rendering its opinion, Imperial Capital assumed that each share of SCM common stock issued to Hirsch shareholders in the Merger would have a value equal to the closing market price of SCM common shares as of December 5, 2008 (which such value was \$1.45 per share).

Imperial Capital utilized the Black-Scholes option pricing model to estimate the value of the warrants to purchase SCM common stock to be issued to the Hirsch shareholders in the Merger. Because the warrants to be issued to the Hirsch shareholders in the Merger are not exercisable for three years after issuance, Imperial Capital arrived at the value of such warrants by utilizing two estimated values for the warrants, one value determined by assuming the estimated life of the warrants at five years and the other determined by assuming the estimated life of the warrants at three years, and then subtracted the value of the three year warrants from the value of the five year warrants.

Other than the estimated life of the warrants to purchase SCM common stock, Imperial Capital utilized the same sets of Black-Scholes option pricing assumptions in estimating the values of both the three-year and five-year



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warrants, as follows: volatility of 76.58%, a risk free interest rate of 1.51%, stock price of \$1.45 (based on the closing market price of shares of SCM common stock as of December 5, 2008) and an exercise price of \$3.00 per share. Utilizing such assumptions Imperial Capital estimated the value of the five-year warrants to be equal to approximately \$0.69 per warrant and estimated the value of the three-year warrants to be equal to approximately \$0.47 per warrant. As described above, Imperial Capital then subtracted the estimated value of the three-year warrants from the estimated value of the five year warrants to arrive at an estimated value of the warrants of \$0.22 per warrant. Imperial Capital utilized such \$0.22 value as the value of the warrants to purchase SCM common stock to be issued to the Hirsch shareholders in connection with the Merger.

It is important to note that option pricing models require the use of highly subjective market assumptions, including expected stock price volatility, which if changed can materially affect fair value estimates.

### ***Discounted Cash Flow Analysis***

Imperial Capital performed a discounted cash flow analysis on Hirsch to take projected future free cash flow over the given period along with the terminal value at the end of the period and then discount these cash flows back to a present value by using the weighted average cost of capital. Imperial Capital based its discounted cash flow analysis on management estimates for financial performance of the business over the analyzed period (through fiscal year 2012).

In its analysis Imperial Capital used discount rates ranging from 13.9% to 18.9% to reflect the overall risk associated with Hirsch's operations and projected financial performance. Imperial Capital calculated a terminal value at the end of 2012 using (1) a terminal earnings before interest, taxes, depreciation and amortization ( EBITDA ) multiple, which incorporated an EBITDA multiple of 7.5x, and (2) a revenue multiple, which incorporated a revenue multiple of 0.6x.

Based on its discounted cash flow analysis, Imperial Capital estimated that Hirsch's present value of enterprise ranged from \$22.4 million to \$34.5 million.

### ***Comparable Company Analysis***

Comparable company analysis seeks to use analogous publicly traded company trading metrics as a proxy for the trading metrics of the company. These trading metrics for the comparable companies were then applied to Hirsch's financial metrics to develop valuation ranges. No company used in this analysis is identical to Hirsch, and, accordingly, a comparable company analysis involves complex and subjective considerations and judgments concerning differences in financial and operating characteristics of businesses and other factors, including, but not limited to, profitability and the size of the company, business mix, markets served operations and other characteristics, that affect trading prices of the various companies being compared.

Although no exactly analogous publicly traded companies exist, Imperial Capital selected financial information and multiples from the ten small cap publicly traded companies in the Access Control sector listed below.

Axis AB;

Gunnebo AB;

GVI Security Solutions Inc.;

Kaba Holding AG;

Magal Security Systems Ltd.;

MDI Inc.;

Napco Security Systems Inc.;

Primion Technology AG;

Vicon Industries Inc.; and

Visonic Group.

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Based on percent of contribution by latest twelve-month ( LTM ) Revenues and LTM EBITDA, a multiple range was developed. Using a range of LTM Revenue multiples resulted in an enterprise value of \$10.4 million to \$19.9 million. Using a range of LTM EBITDA multiples resulted in an enterprise value of \$6.5 million to \$7.4 million. Using a industry range of calendar year 2009 revenue multiples resulted in an enterprise value of \$11.7 million to \$22.0 million. Using an industry range of calendar year 2009 EBITDA multiples resulted in an enterprise value of \$18.5 million to \$21.9 million.

***Comparable Transaction Analysis***

Comparable transaction analysis seeks to use publicly disclosed transaction data of precedent merger and acquisition transactions as a proxy for the transaction metrics of Hirsch. Imperial Capital used available market data to select universes of comparable mergers and acquisitions based on the following selection criteria:

- comparable industry;
- comparable products and services; and/or
- recently closed transactions.

No company or transaction utilized in the comparable transaction analysis is identical to Hirsch or SCM or the Merger. In evaluating the comparable transactions Imperial Capital made judgments and assumptions with regard to general business, market and financial conditions and other matters, which are beyond the control of Hirsch and SCM, such as the impact of competition on the business of Hirsch and SCM or the industry generally, industry growth and the absence of any adverse material change in the financial condition of Hirsch or SCM or the industry or in the financial markets in general, which could affect the public trading value of the companies and the equity value of the transactions to which they are being compared.

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Based on public and other available information, Imperial Capital applied the financial metrics for the following comparable transactions to Hirsch's financial metrics to develop valuation ranges.

<b>Date Closed</b>	<b>Name of Acquirer</b>	<b>Name of Target</b>
7/08/2008(1)	BATM Advanced Communications Ltd.	Vigilant Technology
10/21/08	ESML (EQT)	Securitas Direct Oy
10/01/08	Stanley Works	Générale de Protection
08/28/08	Vislink plc	Pacific Microwave Research, Inc.
07/18/08	Stanley Works (NYSE:SWK)	Sonitrol Corporation
07/02/08	ADT Security Services, Inc.	Intercon Security and Security Services & Technologies
06/04/08	G4S plc	Touchcom, Inc.
03/05/08	L-1 Identity Solutions Inc.	Bioscrypt Inc.
02/29/08	Bosch Security Systems, Inc.	Extreme CCTV Inc.
11/12/07	EQT Partners AB, Investment AB Latour, Melker Schorling AB and Sak I AB	Securitas Direct Oy
09/05/07	Hutton Collins & Company Ltd.	Everest Ltd.
08/01/07	Schneider Electric SA	Pelco, Inc.
05/14/07	Linear LLC	International Electronics Inc.
03/30/07	United Technologies	Initial Electronic Security Systems
01/16/07	Stanley Works (NYSE:SWK)	HSM Electronic Protection Services, Inc.
12/01/06	Corel Corp.	InterVideo, Inc.
11/01/06	Schneider Electric SA	Get Group PLC
10/08/06	Danaher Corp.	Vision Systems Ltd.
10/01/06	VASCO Data Security International, Inc.	Able NV
09/03/06	Assa Abloy AB	Fargo Electronics
09/01/06	Hitec Industries AS	Salem Automation Ltd.
08/01/06	Kaba Holding AG	Computerized Security Systems (Masco Corp.)
07/01/06	Schneider Electric SA	Invensys Building Systems, Inc. (Invensys PLC)
07/01/06	L-3 Communications Holdings, Inc.	TRL Electronics PLC
07/01/06	Extreme CCTV, Inc.	Forward Vision CCTV Ltd.
06/01/06	Teleste Oyj	Suomen Turvakamera Oy
05/01/06	UniVision Engineering Ltd.	T-Com Tech. Co. Ltd.
04/01/06	Central Service Systems	Toyo Media Links
01/01/06	Upper Point Manufacturing Ltd. (Private Group)	Upperpoint Manufacturing Ltd.
01/01/06	Integrian, Inc.	Innovonics Ltd.
12/01/05	Honeywell Industries	First Technology
11/01/05	Securidev SA	DOM Sicherheitstechnik (The Black & Decker Corp.)
08/01/05	Integrian, Inc.	Digital Safety Technologies
07/01/05	CBORD Group	Diebold Card Systems (Diebold)
05/01/05	Axsys Technologies	Diversified Optical Products, Inc.
04/01/05	United Technologies	Kidde plc
03/01/05	General Electric	Edwards Systems Technology

03/01/05

United Technologies

Lenel

(1) Announced.

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Based on LTM Revenues and LTM EBITDA, a multiple range was developed. Using a range of LTM Revenue multiples resulted in an enterprise value of \$44.8 million to \$54.3 million. Using a range of LTM EBITDA multiples resulted in an enterprise value of \$11.7 million to \$12.6 million.

***Summary Analysis***

Based on the foregoing analysis, Imperial Capital concluded that as of December 10, 2008, the Aggregate Consideration to Non-Insiders was fair, from a financial point of view, to the Non-Insider Shareholders.

The material analyses performed by Imperial Capital have been summarized above. Nonetheless, the summary set forth above does not purport to be a complete description of the analyses performed by Imperial Capital. Imperial Capital did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to fairness. Rather, in reaching its conclusion, Imperial Capital considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole.

The analyses Imperial Capital conducted do not purport to be appraisals or to reflect prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. Imperial Capital relied on management-prepared projections of future performance for Hirsch and SCM. The projections were based on numerous variables and assumptions, which are inherently unpredictable and must be considered not certain of occurrence as projected. Accordingly, actual results could vary significantly from those assumed in the projections and any related analyses. Imperial Capital's opinion does not address the relative merits of the Merger as compared to any alternative business strategies that might exist for Hirsch or the effect of any other business combination in which Hirsch might engage.

***Other***

Imperial Capital's opinion should not be construed as creating any fiduciary duty on its part to any party to the Merger. Imperial Capital did not act as financial advisor to the board of directors of Hirsch or SCM or to any other party to the Merger. Imperial Capital will not receive any consideration or other compensation that is contingent upon the successful completion of the Merger. Imperial Capital received a fee for providing its opinion, which was paid by Hirsch. Hirsch has also agreed to reimburse Imperial Capital's expenses incurred in rendering its opinion and to indemnify Imperial Capital against certain liabilities arising out of Imperial Capital's engagement in connection therewith. Imperial Capital's fee was not contingent upon consummation of the Merger. Imperial Capital does not actively trade the debt or equity securities of SCM or Hirsch for its own accounts or for the accounts of customers. There is no material relationship that existed during the past two years or is mutually understood to be contemplated in which any compensation was received or is intended to be received by Imperial Capital as a result of the relationship between Imperial Capital, SCM, Hirsch, or any other party to the Merger. However, Imperial Capital is regularly engaged in a broad range of investment banking and financial advisory activities, including activities relating to corporate finance, mergers and acquisitions, leveraged buyouts and private placements, and thus may provide investment banking, financial advisory and other financial services to the SCM, Hirsch, and other participants in the Merger and/or certain of their respective affiliates in the future, for which Imperial Capital may receive compensation.

As discussed above in this section, Egis Capital, an investment fund that is managed by a general partnership that certain principals of Imperial Capital are members of made a preliminary offer to purchase the assets of Hirsch, which offer was rejected by Hirsch in April 2008.

**Interests of SCM Directors and Executive Officers in the Merger**

To the knowledge of SCM, no director or executive officer of SCM, nor any of 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 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

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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 404,096 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.

**Interests of Hirsch Directors and Executive Officers in the Merger**

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. The Hirsch board of directors was aware of these potential conflicts of interest and considered them, among other matters, in reaching their decision to approve the Merger Agreement and the Merger, and to recommend that the Hirsch shareholders approve the Hirsch proposals to be presented to the Hirsch shareholders for consideration at the Hirsch special meeting as contemplated by this joint proxy statement/information statement and prospectus.

***Ownership Interests***

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 of the 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. Each current Hirsch director and all of Hirsch's executive officers, and their affiliates, have entered into an irrevocable proxy and voting agreement in connection with the Merger and have granted irrevocable proxies appointing SCM their lawful proxy and attorney-in-fact to vote at any meeting of Hirsch shareholders called for purposes of considering whether to approve the Merger and Merger Agreement. For a more detailed discussion of the 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.

In addition, 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 will not be entitled to vote at the Hirsch special meeting.



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Hirsch has previously granted compensatory warrants to purchase shares of Hirsch common stock to each of Eugene Mak, Maury Polner and Doug Morgan (each, a director of Hirsch), and to an affiliate of Ayman Ashour, a former director of Hirsch, for their services as directors of Hirsch. As of the date of this joint proxy statement/information statement and prospectus, compensatory warrants to purchase 50,000 shares of Hirsch common stock were outstanding. As listed on the following table, holders of these warrants to purchase Hirsch common stock could exercise these warrants to purchase shares of Hirsch common stock prior to the closing of the Merger.

Name	Number of Hirsch Shares Subject to Warrant	Issue Date	Exercise Price per Hirsch Share
Eugene Mak	2,000	5/6/1999	\$ 9.00
Eugene Mak	2,000	5/3/2000	\$ 9.50
Eugene Mak	2,000	5/3/2001	\$ 8.00
Eugene Mak	2,000	5/2/2002	\$ 8.00
Eugene Mak	2,000	5/8/2003	\$ 8.00
Eugene Mak	3,000	5/5/2004	\$ 8.00
Eugene Mak	3,000	5/6/2005	\$ 9.50
Eugene Mak	3,000	6/14/2006	\$ 9.50
Eugene Mak	3,000	6/13/2007	\$ 10.00
Doug Morgan	3,000	6/13/2007	\$ 10.00
Newton International Management, LLC	3,000	6/13/2007	\$ 10.00
Maury Polner	2,000	5/6/1999	\$ 9.00
Maury Polner	2,000	5/3/2000	\$ 9.50
Maury Polner	2,000	5/3/2001	\$ 8.00
Maury Polner	2,000	5/2/2002	\$ 8.00
Maury Polner	2,000	5/8/2003	\$ 8.00
Maury Polner	3,000	5/5/2004	\$ 8.00
Maury Polner	3,000	5/6/2005	\$ 9.50
Maury Polner	3,000	6/14/2006	\$ 9.50
Maury Polner	3,000	6/13/2007	\$ 10.00

The Merger Agreement provides that each of the Hirsch warrants which has not been exercised as of the effective time of the Merger will convert into warrants to purchase SCM common stock subject to certain restrictions. For a more detailed discussion of the Hirsch warrants and conversion see the section entitled *The Merger Agreement Merger Consideration Treatment of Hirsch Options and Warrants and Certain Agreements Related to the Merger Warrants* in this joint proxy statement/information statement and prospectus.

***Warrant Compensation to Hirsch Outside Directors***

The outside directors of Hirsch (*i.e.*, directors other than Lawrence W. Midland) have not been compensated for their services as directors of Hirsch for periods after May 2007. The Merger Agreement provides that upon consummation of the Merger, SCM will issue warrants to purchase shares of SCM common stock to Eugene Mak, Maury Polner and Doug Morgan (each, a director of Hirsch), and to Ayman Ashour, a former director of Hirsch, with the number of shares subject to the warrants to be determined based on what otherwise would have been the result of the conversion

under the Merger Agreement of warrants to purchase 3,000 shares of Hirsch common stock. The exercise price of the warrants will be \$3.00 per share of SCM common stock.

***Employment Agreements***

In connection with the Merger, each of Lawrence W. Midland, Robert Beliles, John Piccininni and Robert Zivney, the executive officers of Hirsch, have entered into an employment agreement with Hirsch to become effective upon the effective time of the Merger. The employment agreements set forth the terms of such individuals

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employment with the Surviving Subsidiary and, with respect to Mr. Midland, SCM, after the effective time of the Merger. As a condition to the obligation of SCM to complete the Merger, three out of the four above described employment agreements, including the employment agreement with Lawrence W. Midland, must remain in effect as of the closing date of the Merger. 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.

***Interests in the Settlement Agreement***

Effective November 1994, Hirsch entered into a settlement agreement with two limited partnerships Keyboards and Networks Hirsch had previously obtained funding and the exclusive rights to certain patents and technology from Secure Keyboards, Ltd. (in 1981) and Secure Networks, Ltd. (in 1986). The settlement agreement provides that (as a clarification of the agreements entered into in 1981 and 1986), Hirsch is obligated to pay royalties based on Hirsch gross revenues to Secure Keyboards, Ltd. for the period from December 1, 1994 to December 31, 2020 and to Secure Networks, Ltd. for the period from December 1, 1994 to December 31, 2011.

The following individuals, each of whom is a director of Hirsch, hold an interest in Secure Keyboards, Ltd. and/or Secure Networks, Ltd. as set forth in the table below:

<b>Name</b>	<b>Position</b>	<b>Interest in Secure Keyboards</b>	<b>Interest in Secure Networks</b>
Lawrence W. Midland	Hirsch Director and President	29.93%	6.59%
Eugene Mak	Hirsch Director	0.94%	2.73%
Doug Morgan	Hirsch Director	0.00%	16.36%

Lawrence W. Midland is also one of four general partners of Secure Keyboards, Ltd. and one of two general partners of Secure Networks, Ltd.

To the extent that consummation of the Merger results in an increase in the amount of Hirsch revenues, the amount of royalties payable under the settlement agreement will increase.

***Keyboards and Networks Letters of Understanding***

In connection with the signing of the Merger Agreement, Robert J. Parsons and Lawrence W. Midland, as two of the four general partners of Keyboards, delivered a letter of understanding to SCM, as amended and restated. In addition, Robert J. Parsons and Lawrence W. Midland, as the two general partners of Networks, delivered a substantially similar letter of understanding to SCM, as amended and restated. For more information regarding the letter of understanding delivered to SCM, see the section entitled *Certain Agreements Related to the Merger – Keyboards and Networks Letters of Understanding* in this joint proxy statement/information statement and prospectus.

Among other conditions, the obligation of SCM and Merger Subs to complete the Merger is subject to SCM's receipt or waiver of the following consents related to the settlement agreement and related letters of understanding:

the consent to the Merger and waiver of any rights to notice by Keyboards and Networks pursuant to the terms of the Settlement Agreement, executed by each respective general partner; and

the consent of each of the two other of the four general partners of Keyboards who have not delivered a consent to become a party to and bound by the letter of understanding delivered to SCM by Robert J. Parsons and Lawrence W. Midland, as general partners of Keyboard.

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 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.

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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 relating to the settlement agreement and 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.

For a more detailed discussion of the settlement agreement and the letters of understanding 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* in this joint proxy statement/information statement and prospectus.

***Appointment of Lawrence W. Midland to SCM Board of Directors***

The Merger Agreement provides that, as a condition precedent to Hirsch's obligation to close the Merger, 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. The Stockholder Agreement permits the stockholders who are parties to the agreement to vote at their discretion regarding the re-election or non-removal of Lawrence M. Midland to or from the SCM board of directors, which is an exception from their other obligations pursuant to the Stockholder Agreement to vote, for a period of three years beginning on the effective date of the Merger, in favor of electing directors, or to vote to remove directors, in each case as recommended by SCM's board of directors. In the event that Lawrence W. Midland is not nominated for re-election at the 2009 annual meeting of SCM stockholders, or is otherwise involuntarily removed without cause from SCM's board of directors, the voting obligation under the Stockholder Agreement to vote in accordance with the SCM board of directors' recommendation terminates.

***Hirsch EMEA, Inc. Stock Purchase***

As a condition to the closing of the Merger, Hirsch entered into a Stock Purchase and Sale Agreement, dated December 15, 2008, for the purchase of the approximately 70.6% of the outstanding shares of capital stock of Hirsch EMEA, Inc., a British Virgin Island corporation, not already owned by 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. Under the terms of the Stock Purchase and Sale Agreement, tSecu, LLC, received \$260,000 and 52,000 shares of Hirsch (now held by Mr. Ashour) in exchange for the approximately 37.5% of the outstanding Hirsch EMEA, Inc. shares owned by tSecu, LLC. Nicola Caletti, President of Hirsch EMEA, Inc., received \$240,000 and 48,000 shares of Hirsch in exchange for the approximately 33% of the outstanding Hirsch EMEA, Inc. shares owned by him. Pursuant to the terms of the Stock Purchase and Sale Agreement, Hirsch also acquired options to purchase all or any portion of the outstanding capital of a Hirsch EMEA, Inc. subsidiary. This transaction closed on December 15, 2008 and Hirsch EMEA, Inc. is now a wholly-owned subsidiary of Hirsch. For a more detailed discussion of the Hirsch EMEA purchase, see the section 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.

***Indemnification of Hirsch Officers and Directors***

The Merger Agreement provides that, 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 against all claims, losses, liabilities, damages, judgments, costs and expenses, including reasonable attorneys' fees, actually and reasonably incurred and arising from any claim, action, suit, proceeding or investigation pertaining to the fact that such person is or was a director or officer of Hirsch, subject to certain exceptions.

The Merger Agreement also provides that, 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

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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; *provided*, that the aggregate premiums for such policy do not exceed \$50,000.

### **Merger Consideration**

At the effective time of the Merger, each share of Hirsch common stock issued and outstanding immediately prior to the effective time of the Merger (other than (i) shares held by SCM or the Merger Subs, (ii) shares held by Hirsch as treasury stock, and (iii) any dissenting shares), will be automatically converted into and thereafter represent 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 equal to \$3.00 per share and a five year term, exercisable for two years following the third anniversary of the effective time of the Merger (the merger consideration). The merger consideration 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.

In addition, as provided for by the Merger Agreement, the maximum aggregate amount of merger consideration that SCM is required to pay in connection with the merger, excluding any amount that SCM is required to pay with respect to dissenting shares, is equal to the maximum number of Hirsch shares permitted under the Merger Agreement, multiplied by each component of the merger consideration described above. This maximum number of Hirsch shares is calculated to be equal to the sum of 4,705,735 Hirsch shares, plus shares issued in connection with the exercise of options and warrants between the date of the Merger Agreement and the closing of the Merger, minus the number of dissenting shares, minus shares held by SCM or Merger Subs and Hirsch shares held by Hirsch as treasury stock. In the event that the actual number of shares of Hirsch common stock at the effective time of the Merger exceeds the maximum number of Hirsch shares, then the aggregate merger consideration will be allocated pro rata among the actual number of shares of Hirsch common stock outstanding at the effective time in lieu of the per share allocation described in the paragraph above.

### ***Treatment of Options and Warrants***

#### ***Treatment of Options***

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, and neither SCM, the Merger Subs, nor the surviving entity will assume or be bound by any obligation with respect to such options.

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The following table lists all of the options to purchase shares of Hirsch common stock that are outstanding as of February 10, 2009. Holders of these options to purchase Hirsch common stock could exercise these options to purchase shares of Hirsch common stock prior to the closing of the Merger.

<b>Name</b>	<b>Number of Hirsch Shares Subject to Option</b>	<b>Issue Date</b>	<b>Exercise Price per Hirsch Share</b>
Charles Baden	5,000	4/6/1999	\$ 9.00
Patrick Chao	4,000	4/6/1999	\$ 9.00
Patrick Chao	2,500	6/8/2004	\$ 8.00
Chhiv Chauv	2,500	6/8/2004	\$ 8.00
Cynthia L. Doyle	5,000	1/31/2003	\$ 8.00
Anthony Scott Elliott	5,000	1/31/2003	\$ 8.00
Patrick Finnegan	5,000	4/9/2004	\$ 8.00
Thomas S. Friesema	5,000	1/31/2003	\$ 8.00
Delfino Gonzales	3,000	7/13/1999	\$ 9.00
Randall S. Lehman	5,000	1/31/2003	\$ 8.00
Keith Milleson	8,000	4/6/1999	\$ 9.00
Bernice E. Noriz	5,000	1/31/2003	\$ 8.00
Douglas H. Smith	5,000	1/31/2003	\$ 8.00
Lars Suneborn	5,000	4/6/1999	\$ 9.00
Robert C. Zivney	10,000	2/2/2006	\$ 9.50

*Treatment of Warrants*

At the effective time of the Merger, the Merger Agreement provides that 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 the conversion ratio, rounded down to the nearest whole share. The per share exercise price for each new warrant to purchase SCM 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.

*Conversion Ratio*

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, divided by the 30-day 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. The warrants will be valued using the Black-Scholes American option model.

By way of illustration only, based on the 30-day volume weighted price of SCM's common stock \$2.54, and the aggregate value of the merger consideration per share was estimated to be \$8.38 (calculated as the cash merger



consideration per share, plus the 30-day volume weighted price of SCM's common stock, plus the estimated value of the warrant merger consideration per share value, based on Black-Scholes valuation modeling), the conversion ratio would be equal to 3.29 (the quotient obtained by dividing \$8.38 by \$2.54). Applying this ratio to 3,000 warrants to purchase shares of Hirsch common stock each with an exercise price of \$10.00 per share, would result in warrants to purchase 9,877 shares of SCM common stock (the result of 3,000 warrants multiplied by the conversion ratio) with an exercise price of \$3.04 per share (the result of \$10.00 per share exercise price divided by the conversion ratio).

The conversion ratio to be actually used in connection with the Merger will be determined as of the effective time of the Merger and may be different than as calculated above.

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***Letter of Transmittal; Exchange of Shares***

Prior to the effective time of the Merger, SCM will deposit with a paying agent reasonably acceptable to Hirsch, cash, stock certificates and warrants sufficient to pay the merger consideration for each outstanding share of Hirsch common stock and warrants to exchange for the outstanding warrants to purchase Hirsch common stock. As soon as reasonably practicable after the completion of the Merger, the paying agent will mail a letter of transmittal and instructions to each holder of record as of immediately prior to the effective time of the Merger of Hirsch common stock and warrants to purchase Hirsch common stock. The letter of transmittal and instructions will inform holders of Hirsch common stock and warrants to purchase Hirsch common stock how to surrender their Hirsch common stock certificates and Hirsch warrant certificates in exchange for receiving merger consideration or warrants to purchase shares of SCM common stock, as the case may be. Until surrendered, no portion of the merger consideration or warrants to purchase shares of SCM common stock will be paid to any holder of any Hirsch stock or warrant certificate.

If any Hirsch stock certificate or Hirsch warrant certificate has been lost, stolen or destroyed, SCM may, in its discretion, and as a condition to the delivery of merger consideration or warrants to purchase shares of SCM common stock, require the owner of such lost, stolen or destroyed certificate to deliver an affidavit claiming such certificate has been lost, stolen or destroyed, provide an indemnification agreement and, if determined by SCM in good faith to be necessary, to post a bond indemnifying SCM against any claim suffered by SCM or the Merger Subs with respect to the certificates alleged to have been lost, stolen or destroyed.

After the effective time of the Merger, Hirsch's transfer books will be closed and there will be no further transfers of any shares of Hirsch's common stock that were outstanding immediately prior to the effective time, and each holder of a certificate representing any shares of Hirsch common stock or warrants to purchase shares of Hirsch common stock will no longer have any rights with respect to such shares or warrants, except for the right to receive, for each share or warrant represented by the certificate, the applicable merger consideration or warrants to purchase shares of SCM common stock as described above.

**Appraisal Rights and Dissenters' Rights**

***Rights of SCM Stockholders***

SCM stockholders are not entitled to dissenters' rights or appraisal rights under the Delaware General Corporation Law in connection with the Merger.

***Rights of Hirsch Shareholders***

Hirsch shareholders are entitled to exercise dissenters' rights in connection with the Merger under the provisions of Sections 1300 through 1304 of Chapter 13 of the California Corporations Code relating to the rights of dissenting shareholders in the context of a merger.

The discussion below is not a complete summary regarding the dissenters' rights of Hirsch shareholders under the California Corporations Code, and is qualified in its entirety by reference to the text of the relevant provisions of the California Corporations Code attached to this joint proxy statement/information statement and prospectus as *Annex O*. Hirsch shareholders intending to exercise dissenters' rights should carefully review *Annex O*. Failure to follow precisely any of the statutory procedures set forth in *Annex O* may result in loss or waiver of dissenters' rights. This summary does not constitute legal or other advice, nor is it a recommendation that Hirsch shareholders exercise dissenters' rights under California law.

Even though a Hirsch shareholder wishing to exercise dissenters' rights may be required to take certain actions before the effective time of the Merger, if the Merger Agreement is later terminated and the Merger is abandoned, no shareholder of Hirsch will have the right to any payment from Hirsch by reason of having taken that action. The following discussion is subject to this qualification.

Within ten days after the approval of the Merger by Hirsch shareholders, Hirsch will mail a notice of approval to each holder of Hirsch common stock who did not vote their shares of Hirsch common stock in favor of the Merger. This notice of approval must include a statement of the price determined by Hirsch to be the relevant fair market value of the shares of Hirsch common stock, which statement will constitute an offer by Hirsch to purchase shares of Hirsch common stock that qualify as dissenting shares at the stated price if the Merger becomes

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effective, unless such shares lose their status as dissenting shares under Section 1309 of the California Corporations Code. Chapter 13 of the California Corporations Code provides that the fair market value, for this purpose, is determined as of the day before the first announcement of the Merger, excluding any appreciation or depreciation as a consequence of the announcement of the Merger. The notice of approval must also include a brief description of the procedures to be followed by Hirsch shareholders who wish to exercise their dissenters' rights and a copy of Sections 1300 through 1304 of Chapter 13 of the California Corporations Code.

To exercise dissenters' rights as to any of your shares of Hirsch common stock in connection with the Merger, you must not vote the Hirsch shares in favor of either the Merger or the Merger Agreement, and you must make a written demand to have Hirsch purchase your Hirsch shares at their fair market value.

The written demand must:

be received by Hirsch within 30 days after the date on which the notice of approval is mailed to you by Hirsch (as described above);

specify the number and class of Hirsch shares held of record by you which you demand Hirsch purchase;

state that you are demanding purchase of your Hirsch shares and payment of their fair market value; and

include a statement of the price you claim to be the fair market value of the Hirsch shares as of the day before the announcement of the terms of the Merger, which statement will constitute an offer by you to sell your Hirsch shares to Hirsch at that price.

All written demands should be addressed to:

Hirsch Electronics Corporation  
1900 Carnegie Avenue, Building B  
Santa Ana, California 92705  
Attention: President

In addition, within 30 days after the date on which the notice of approval is mailed to you by Hirsch, you must submit to Hirsch or its transfer agent the stock certificate(s) representing the Hirsch shares as to which you wish to exercise dissenters' rights.

Under Chapter 13 of the California Corporations Code, a dissenting Hirsch shareholder may not withdraw the demand for payment of the fair market value of the shareholder's dissenting Hirsch shares in cash unless Hirsch consents.

If the shareholder and Hirsch agree that the shares of Hirsch common stock as to which the shareholder is seeking dissenters' rights qualify as dissenting shares and also agree upon the price to be paid to purchase the Hirsch shares, then the dissenting shareholder is entitled to the agreed price with interest thereon at the legal rate on judgments from the date of the agreement. Any agreements fixing the fair market value of any dissenting shares as between Hirsch and any dissenting Hirsch shareholder must be filed with the Secretary of Hirsch.

However, if Hirsch disputes that the shareholder's Hirsch shares qualify as dissenting shares or Hirsch and the dissenting shareholder fail to agree upon the fair market value of the dissenting shares, then within six months after the date on which Hirsch mailed the notice of approval, the Hirsch shareholder must either file a complaint in the California Superior Court of the proper county requesting the court to make these determinations or intervene in a pending action brought by another dissenting Hirsch shareholder. If the dissenting Hirsch shareholder does not file a

complaint or intervene in a pending action within the specified six-month period, the dissenters' rights are lost.

If the court determines that the shareholder's Hirsch shares qualify as dissenting shares, then, following determination of their fair market value, Hirsch will be obligated to pay the dissenting Hirsch shareholder the fair market value of the Hirsch shares, as so determined, together with interest thereon at the legal rate from the date on which judgment is entered. Payment on this judgment will be due upon the endorsement and delivery to Hirsch of the stock certificate(s) for the Hirsch shares as to which the dissenters' rights are being exercised. Any party may appeal from the judgment.

In determining the fair market value of the dissenting Hirsch shares, the court may appoint one or more impartial appraisers to make the determination. Within ten days of their appointment, the appraiser, or a majority of

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them, will make and file a report with the court. If the appraisers cannot determine the fair market value within ten days of their appointment, or within a longer time determined by the court, or the court does not confirm their report, then the court will determine the fair market value. The costs of the appraisal action, including reasonable compensation to the appraisers appointed by the court, will be allocated between Hirsch and dissenting Hirsch shareholder as the court deems equitable. However, if the appraisal of the fair market value of the Hirsch shares exceeds the price offered by Hirsch in the notice of approval, then Hirsch shall pay the costs. If the fair market value of the shares awarded by the court exceeds 125% of the price offered by Hirsch, then the court may in its discretion impose additional costs on Hirsch, including attorneys' fees, fees of expert witnesses and interest.

Hirsch shareholders considering whether to exercise dissenters' rights should consider that the fair market value of their Hirsch common stock determined under Chapter 13 of the California Corporations Code could be more than, the same as or less than the value of merger consideration to be paid in connection with the Merger, as set forth in the Merger Agreement. Also, Hirsch reserves the right to assert in any appraisal proceeding that, for purposes thereof, the fair market value of the Hirsch common stock is less than the value of the merger consideration to be issued and paid in connection with the Merger, as set forth in the Merger Agreement.

Strict compliance with certain technical prerequisites is required to exercise dissenters' rights. Hirsch shareholders wishing to exercise dissenters' rights should consult with their own legal counsel in connection with compliance with Chapter 13 of the California Corporations Code. Any Hirsch shareholder who fails to comply with the requirements of Chapter 13 of the California Corporations Code, attached as *Annex O* to this joint proxy statement/information statement and prospectus, will forfeit the right to exercise dissenters' rights and will, instead, receive the merger consideration to be issued and paid in connection with the Merger, as set forth in the Merger Agreement.

The Merger Agreement provides that SCM will not be required to complete the Merger if dissenters' rights have been exercised with respect to 10% or more, in the aggregate, of all outstanding Hirsch common stock. As a result, exercise of dissenters' rights with respect to 10% or more of the outstanding shares of Hirsch common stock could prevent the Merger from going forward. SCM is entitled to waive this requirement and permit the Merger to proceed even if 10% or more of the outstanding Hirsch common stock exercise dissenters' rights.

## **NASDAQ Listing of SCM Shares Issued in Connection with the Merger**

SCM will use commercially reasonable efforts 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 listed on the NASDAQ Stock Market and the Prime Standard of the Frankfurt Stock Exchange as of the effective time of the Merger, and the Merger Agreement provides that neither SCM nor Hirsch will be required to complete the Merger if the shares of SCM common stock to be issued in connection with the Merger are not approved for listing, subject to notice of issuance, on the NASDAQ Stock Market.

## **Effective Time of the Merger**

The Merger will be completed and become effective at the time Merger Sub 1 merges with and into Hirsch and the certificate of merger is filed with the Secretary of State of the State of Delaware. The parties intend to complete the Merger as soon as practicable following the approval and adoption of the Merger Agreement and the issuance of the shares of SCM common stock in connection with the Merger by each of the Hirsch shareholders and SCM stockholders, respectively, and the satisfaction or waiver of the conditions to closing of the Merger set forth in the Merger Agreement. The parties to the Merger Agreement currently anticipate that the Merger will be completed sometime in the first half of 2009. However, because the Merger is subject to a number of conditions, the exact timing of the completion of the Merger cannot be determined with any certainty, if it is completed at all.

As soon as reasonably practicable after Merger Sub 1 merges with and into Hirsch, Hirsch will merge with and into Merger Sub 2, with Merger Sub 2 as the surviving entity. As a result of the mergers, the business and assets of Hirsch will be held by a new Delaware limited liability company that will be a wholly-owned subsidiary of SCM.

**Table of Contents****The Board of Directors and Management of SCM and Hirsch Following the Merger**

After completion of the Merger, the SCM board of directors will consist of eight directors, including Lawrence W. Midland, who is expected to join SCM's board of directors immediately after the effective time of the Merger, filling an existing vacancy. SCM currently anticipates that the following individuals will serve as its board of directors immediately following completion of the Merger:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Werner Koepf	67	Chairman of the Board
Dr. Hagen Hultzsich	68	Director
Steven Humphreys	47	Director
Dr. Hans Liebler	39	Director
Felix Marx	42	Chief Executive Officer and Director
Lawrence W. Midland	67	Executive Vice President and Director
Stephan Rohaly	44	Chief Financial Officer and Director
Simon Turner	57	Director

SCM and Hirsch have agreed that, upon completion of the Merger, SCM's officers will remain as they existed prior to the Merger, with the exception that Lawrence W. Midland is expected to join the management of SCM as an Executive Vice President.

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.

**Ownership of SCM Following the Merger**

After the Merger, Hirsch will continue as a wholly-owned subsidiary of SCM, and Hirsch shareholders will no longer have any interest in Hirsch, but will have an equity stake in SCM, the new parent 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. Upon attributing ownership to the former Hirsch's shareholders of the shares of common stock that may be issued upon exercise of the warrants to purchase SCM common stock issued in the Merger and assuming no options to purchase Hirsch common stock are exercised prior to the consummation of the Merger, and assuming that existing SCM stockholders do not change their current stock and option holdings during such time, existing SCM stockholders and option holders would own approximately 55% of the common stock of SCM on a fully diluted basis and the former Hirsch shareholders would own approximately 45% of the common stock of SCM on a fully diluted basis.

For detailed information regarding the beneficial ownership of certain key stockholders of the combined company prior to and after consummation of the Merger, see the sections entitled "Principal Stockholders of SCM Microsystems" and "Principal Shareholders of Hirsch Electronics" in this joint proxy statement/information statement and prospectus.

**Anticipated Accounting Treatment**



SCM will account for the Merger 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. The purchase method of accounting is based on Financial Accounting Standard No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). The provisions of SFAS No. 141(R) are to be applied prospectively to business combinations with acquisition dates on or after the beginning of an entity's fiscal year that begins on or after December 15, 2008, with early adoption prohibited. Since SCM's acquisition of Hirsch will close in fiscal year 2009, the provisions of SFAS No. 141(R) are applied.

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**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

The following discussion of material U.S. federal income tax consequences of the Merger to Hirsch shareholders and warrant holders is based on the Internal Revenue Code of 1986, as amended, the related Treasury regulations, administrative interpretations, and court decisions, all of which are subject to change, possibly with retroactive effect. Any such change could affect the accuracy of the statements and the conclusions discussed below and the presently anticipated tax consequences of the Merger. This discussion applies only to Hirsch shareholders and warrant holders that hold their shares of Hirsch common stock and warrants to purchase shares of Hirsch common stock, and will hold any shares of SCM common stock and warrants to purchase shares of SCM common stock received in exchange therefor, as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended. This discussion does not address all federal income tax consequences of the Merger that may be relevant to particular Hirsch shareholders or warrant holders, including shareholders or warrant holders that are subject to special tax rules. Some examples of shareholders an