SCM MICROSYSTEMS INC
Form 424B3
November 13, 2009

Table of Contents

Filed pursuant to Rule 424(b)(3)
SEC File No. 333-162618

PROXY STATEMENT AND PROSPECTUS

Dear SCM Stockholder:

We are pleased to report that the board of directors of SCM Microsystems, Inc. (SCM) has approved a business combination transaction with Bluehill ID AG, a stock corporation incorporated in Switzerland (Bluehill ID). To effect the transaction, SCM will make an offer to the Bluehill ID shareholders to acquire all of the issued and outstanding bearer shares in Bluehill ID, in exchange for shares of SCM common stock. Shareholders of Bluehill ID who accept and tender their shares in the offer will receive 0.52 shares of SCM common stock for every one bearer share in Bluehill ID. Before we can complete the proposed business combination, including the offer, we must obtain the approval of SCM s stockholders, and we are sending you the accompanying proxy statement and prospectus for this purpose.

SCM is holding a special meeting of its stockholders in order to obtain the stockholder approval necessary to complete the business combination with Bluehill ID. The SCM special meeting will be held at 1:00 p.m., local time, on December 18, 2009, at SCM s U.S. office located at 1900-B Carnegie Ave., Santa Ana, CA 92705, unless postponed or adjourned to a later date. At the SCM special meeting, SCM will ask its stockholders to approve, among other proposals, the offer and specifically the issuance of shares of SCM common stock to the shareholders of Bluehill ID that tender their shares in connection with the offer, as described in the accompanying proxy statement and prospectus.

After careful consideration, the SCM board of directors has approved the business combination and the related offer, including the issuance of shares of SCM common stock in connection with the offer, and has determined that the business combination, the offer and such issuance of shares is in the best interests of SCM and its stockholders. ***Accordingly, the SCM 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.***

SCM common stock is listed on the NASDAQ Stock Market s Global Market under the symbol SCMM and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange under the symbol SMY. On November 9, 2009, the last practicable trading day before the date of this proxy statement and prospectus, the closing sale price of SCM common stock was $2.89 per share as reported on the NASDAQ Stock Market. Bearer shares in Bluehill ID are traded over-the-counter on the Open Market at the Frankfurt Stock Exchange under the symbol BUQ. On November 9, 2009, the last practicable trading day before the date of this proxy statement and prospectus, the closing sale price of a bearer share in Bluehill ID was 0.87 per share as reported on the Open Market at the Frankfurt Stock Exchange.

More information about SCM, Bluehill ID, the proposed business combination and the offer is contained in the accompanying proxy statement and prospectus. ***SCM urges you to read the accompanying proxy 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 9 of the accompanying proxy statement and prospectus.***

SCM s board of directors has set November 9, 2009 as the record date for determining holders of SCM common stock entitled to execute and deliver written consents with respect to this solicitation. If you are a record holder of outstanding SCM common stock on that date, you are urged to complete, date and sign the enclosed proxy card and promptly return it to SCM. **Your vote is very important, regardless of the number of shares you own of SCM.**

Please read the accompanying proxy statement and prospectus carefully and cast your proxy vote as promptly as possible.

SCM is excited about the opportunities the proposed business combination may bring to SCM stockholders, and thanks you for your consideration and continued support.

Felix Marx
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the business combination or the securities of SCM to be issued in connection with the offer, or determined if this proxy statement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The accompanying proxy statement and prospectus is dated November 12, 2009, and is first being mailed to SCM stockholders on or about November 18, 2009.

Table of Contents

SCM Microsystems, Inc.
1900-B Carnegie Ave.
Santa Ana, CA 92705

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On December 18, 2009

To Stockholders of SCM Microsystems, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of SCM Microsystems, Inc., a Delaware corporation (SCM), will be held at SCM s principal executive offices located at 1900-B Carnegie Ave., Santa Ana, CA 92705, on December 18, 2009 at 1:00 p.m., local time to consider and vote on the following proposals:

1. To consider and vote upon a proposal to approve SCM s offer to the Bluehill ID shareholders to acquire all of the issued and outstanding bearer shares in Bluehill ID (the Offer) and, specifically, the issuance of new shares of SCM common stock, par value $0.001 per share, in connection with the Offer to effect the business combination proposed under the Business Combination Agreement, dated as of September 20, 2009, as amended (the Business Combination Agreement) by and among SCM and Bluehill ID AG, a stock corporation incorporated in Switzerland (Bluehill ID);

2. To consider and vote upon any motion to adjourn or postpone the SCM special meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve 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 Business Combination Agreement are more fully described in the proxy statement and prospectus accompanying this Notice. Only SCM stockholders of record at the close of business on November 9, 2009 will be entitled to notice of, and a vote at, the SCM special meeting. At the close of business on November 9, 2009, 25,134,985 shares of SCM common stock were 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 Santa Ana, California, and at its German offices in Ismaning, Germany.

All SCM stockholders of record as of the record date 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 vote your SCM shares as soon as possible to ensure that your shares of SCM common stock will be represented at the SCM special meeting.** Instructions for voting by mail, telephone, and the Internet 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 proxy 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 of shares of SCM that you own or whether or not you plan to attend the SCM special meeting, it is important that your shares of SCM common stock 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,

Felix Marx
Chief Executive Officer

Ismaning, Germany
November 12, 2009

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

Table of Contents

ADDITIONAL INFORMATION

This proxy statement and prospectus incorporates important business and financial information about SCM that is not included or delivered with this proxy statement and prospectus. You can obtain this information by requesting it in writing or by telephone from SCM at the following addresses:

In the United States:
SCM Microsystems, Inc.
1900-B Carnegie Ave.
Santa Ana, CA 92705
+1-949-250-8888 Ext. 106
ir@scmmicro.com

In Europe:

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5000
ir@scmmicro.com

You will not be charged for any information that you request. **In order to ensure timely delivery of the documents in advance of the SCM special meeting, any request should be made at least five (5) business days before the SCM special meeting, or December 11, 2009. See the section entitled Where You Can Find More Information for additional details about where you can find information about SCM.**

ABOUT THIS PROXY STATEMENT AND PROSPECTUS

This proxy statement and prospectus forms a part of a Registration Statement on Form S-4 (Registration No. 333-162618), 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 (the Securities Act of 1933), and the rules thereunder, with respect to the shares of SCM common stock to be issued to shareholders of Bluehill ID in connection with the proposed business combination and the related transactions, including the offer.

In addition, this proxy 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 to approve the Offer and, specifically, the issuance of new shares of SCM common stock in connection with the Offer to effect the business combination proposed under the Business Combination Agreement; and

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

NOTE REGARDING TRADEMARKS

The SCM logo is a trademark of SCM and the Bluehill ID logo is a trademark of Bluehill ID or its affiliates in the United States and certain other countries. Additional company and product names may be trademarks or registered trademarks of the individual companies and are respectfully acknowledged.

This proxy 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 proxy statement and prospectus are the property of their respective owners.

Table of Contents

TABLE OF CONTENTS

Table of Contents

ANNEXES

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION, THE OFFER, AND THE SCM SPECIAL MEETING

SCM and Bluehill ID are proposing to combine the businesses of SCM and Bluehill ID pursuant to the terms of the Business Combination Agreement, dated as of September 20, 2009, as amended, by and among SCM and Bluehill ID (the Business Combination Agreement). ***This combination is referred to in this proxy statement and prospectus as the business combination and the post-closing combined businesses of SCM and Bluehill ID as the combined companies.*** *To effect the business combination, SCM will make an offer to the Bluehill ID shareholders to acquire all of the issued and outstanding bearer shares in Bluehill ID in exchange for newly issued shares of SCM common stock.* ***This exchange offer is referred to in this proxy statement and prospectus as the Offer.*** *This proxy statement and prospectus contains important information about the business combination, the Business Combination Agreement, the Offer and the SCM special meeting. The following section provides answers to certain anticipated questions about the proposed business combination, the Offer, and the SCM special meeting of stockholders. Please note that this section may not address all issues that may be important to you as an SCM stockholder. Accordingly, you should carefully read this entire proxy statement and prospectus, including each of the annexes.*

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

A. You are receiving this proxy statement and prospectus because you are a stockholder of SCM as of November 9, 2009, the record date of SCM s special meeting of its stockholders.

Q. Who is soliciting my proxy?

A. This proxy statement and prospectus is being used by the board of directors of SCM to solicit your proxy for use at the SCM special meeting. This proxy statement and prospectus also serves as the prospectus for shares of SCM common stock to be issued in exchange for bearer shares in Bluehill ID tendered in the Offer.

Q. What am I being asked to approve?

A. You are being asked to approve the Offer and, specifically, the issuance of new shares of SCM common stock, par value $0.001 per share, in connection with the Offer to effect the business combination.

About the Business Combination and Offer

Q. Why is SCM proposing to combine with Bluehill ID?

A. The board of directors of SCM has determined that the business combination and the Offer are in the best interests of SCM and its stockholders in part because it presents a compelling strategic opportunity for SCM to accelerate the development of a leadership position in contactless security and identity solutions markets and technology and to further diversify its business geographically. For a complete discussion of SCM s reasons for the business combination, see the section entitled The Offer SCM s Reasons for the Business Combination Agreement and Offer in this proxy statement and prospectus.

Q. What vote is required to consummate the Offer?

A. To consummate the Offer and effect the business combination, SCM stockholders must approve the Offer and, specifically, the issuance of shares of SCM common stock in connection with the Offer. The approval of the

Offer and 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. Each of Lincoln Vale European Partners (Lincoln Vale), which beneficially owned approximately 6.1% of the outstanding shares of SCM common stock and approximately 9.8% of the outstanding bearer shares in Bluehill ID as of November 9, 2009, and Bluehill ID, which together with its affiliates, including Ayman S. Ashour, beneficially owned approximately 5.2% of the outstanding shares of SCM common stock as of November 9, 2009, will have the right to vote at the SCM special meeting.

Table of Contents

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

A. In addition to the requirement of obtaining SCM stockholder approval and certain other conditions, at least 75% of the outstanding bearer shares in Bluehill ID must be tendered in the Offer. For a summary of the conditions that need to be satisfied to consummate the Offer, see the section entitled The Business Combination Agreement Conditions to the Closing of the Offer in this proxy statement and prospectus.

Q. What will Bluehill ID shareholders receive if they accept the Offer?

A. Shareholders of Bluehill ID who accept the Offer and tender their shares will receive 0.52 shares of SCM common stock for every one bearer share in Bluehill ID. No fractional shares of SCM common stock will be issued in the Offer. In lieu of fractional shares, tendering shareholders of Bluehill ID will receive adequate consideration.

Q. Will the number of shares of SCM common stock issuable to Bluehill ID shareholders in connection with the Offer be subject to any adjustment, for example if SCM s stock price fluctuates?

A. No. The share exchange ratio is fixed at 0.52 shares of SCM common stock for every one bearer share in Bluehill ID tendered in the Offer.

Q. What will be the relative ownership of SCM after the Offer?

A. If all of the bearer shares in Bluehill ID currently outstanding (which excludes any bearer shares in Bluehill ID that may be issued or issuable after the date of this proxy statement and prospectus) are tendered in the Offer, post-Offer the current stockholders of SCM will hold approximately 60% of the outstanding shares of SCM common stock and the current shareholders of Bluehill ID will hold approximately 40% of the outstanding shares of SCM common stock. This includes 1,201,004 shares of SCM common stock, representing 4.8% of the currently outstanding shares of SCM common stock, that Bluehill ID holds. In addition, it is currently anticipated that (i) Lincoln Vale will beneficially own approximately 7.8% of the outstanding shares of SCM common stock; (ii) Mountain Partners AG, together with its affiliates and certain related parties, including BH Capital Management AG, Daniel S. Wenzel and Dr. Cornelius Boersch, will directly or indirectly beneficially own approximately 25.2% of the outstanding shares of SCM common stock; and (iii) Ayman S. Ashour, Bluehill ID s Chief Executive Officer and President of its board of directors, will directly or indirectly beneficially own, including through BH Capital Management AG, approximately 10.8% of the outstanding shares of SCM common stock.

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

A. Yes. The SCM common stock issued in exchange for the bearer shares in Bluehill ID tendered will be registered under the Securities Act of 1933, and are expected to be listed on the NASDAQ Stock Market s Global Market under the symbol SCMM and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange under the symbol SMY.

Q. Will there be any contractual transfer restrictions affecting the shares of SCM common stock issued in connection with the Offer?

A. No, the shares of SCM common stock received pursuant to the Offer will not be subject to any contractual transfer restrictions.

Q. What will happen to the Bluehill ID options and other rights to acquire or receive bearer shares in Bluehill ID?

A. After the closing of the Offer, it is expected that each option or other right to acquire or receive bearer shares in Bluehill ID will be converted into the right to acquire or receive a number of shares of SCM common stock calculated according to the share exchange ratio. For more information regarding the treatment of the Bluehill ID options and other rights to acquire or receive bearer shares in Bluehill ID, see the section entitled The Offer Treatment of Options in this proxy statement and prospectus.

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

A. No. The Offer 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 Offer.

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

A. Upon closing of the Offer, the board of directors of SCM is expected to expand from seven directors to nine directors, and be composed of six current SCM directors and three current Bluehill ID directors. For more information see the section entitled, Management SCM s Board of Directors The Board of Directors of SCM Following the Offer.

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

A.: No. SCM stockholders do not have appraisal or dissenters rights in connection with the business combination or the issuance of the shares of SCM common stock in connection with the Offer.

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

A. The SCM board of directors has determined that the Business Combination Agreement and the transactions contemplated thereby, including the Offer and the issuance of shares of SCM common stock in connection therewith, are advisable and in the best interests of SCM and its stockholders. After careful consideration, the SCM board of directors recommends that SCM stockholders vote:

FOR Proposal No. 1 to approve the Offer and, specifically, the issuance of new shares of SCM common stock in connection with the Offer to effect the business combination; and

FOR Proposal No. 2 to approve any motion to adjourn or postpone the SCM special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting in favor of Proposal No. 1.

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

A. You should carefully read this entire proxy 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 Offer and the businesses of SCM and Bluehill ID.

Q. When do you expect the Offer to close?

A. SCM cannot predict the exact timing of the closing of the Offer and the related transactions. SCM expects to launch the Offer in accordance with applicable German and Swiss law following the effectiveness of the Registration Statement on Form S-4 of which this proxy statement and prospectus is a part, and the filing and approval of a German prospectus with the German Federal Financial Supervisory Authority. The Business Combination Agreement provides that the Offer period will last between four and twelve weeks, although the Offer period may be extended in the event a superior offer is made for Bluehill ID during the Offer period. The offer period can also be shortened or prolonged with the consent of Bluehill ID. The closing of the Offer is also subject to the satisfaction of certain conditions, including that the required stockholder approval be obtained at the SCM special meeting to be held on December 18, 2009. For more information regarding timing, see the section entitled The Business Combination Agreement Conditions to the Closing of the Offer in this proxy statement and prospectus.

Q. What do SCM stockholders need to do now?

A. SCM urges its stockholders to read this proxy statement and prospectus carefully and in its entirety, including its annexes, and to consider how the Offer affects them. If you are a stockholder of SCM as of the record date, 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.

Table of Contents

About the SCM 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 1900-B Carnegie Ave., Santa Ana, CA 92705, at 1:00 p.m., local time, on December 18, 2009.

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 November 9, 2009 (the record date), are entitled to notice of, and to vote at, the SCM special meeting. All SCM stockholders as of the record date, or their duly appointed proxies, may attend the SCM special meeting. As of the record date, there were 25,134,985 shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately 352 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. 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 as the beneficial owner, you are also invited to attend the SCM special meeting.

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

A. If you are an 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.

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 an SCM stockholder of record, you may attend the 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 you own your shares of SCM common stock in street name, 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. If you own your shares of SCM common stock in street name, you are not the stockholder of record, and 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. 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 stock without instructions from you. Brokers are not expected to have discretionary authority to vote for the SCM proposals. 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 stockholder who owns shares of SCM common stock 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.

[Table of Contents](#)

Q. What should I do if I receive more than one set of voting materials?

A. As an SCM stockholder, you may receive more than one set of voting materials, including multiple copies of this proxy statement and prospectus and multiple SCM proxy cards or voting instruction cards. For example, if you hold your shares of SCM common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares of SCM common stock. If you are a holder of record and your shares of SCM common stock are registered in more than one name, you will receive more than one proxy card. 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 proxy statement and prospectus in the section entitled The SCM Special Meeting of Stockholders.

Q. Who can help answer my questions?

A. If you are an SCM stockholder or Bluehill ID shareholder and would like additional copies, without charge, of this proxy statement and prospectus, or if you have questions about the Offer, including the procedures for voting your shares of SCM common stock, you should contact:

In the United States:

SCM Microsystems, Inc.
1900-B Carnegie Ave.
Santa Ana, CA 92705
+1-949-250-8888 Ext. 106
ir@scmmicro.com

In Europe:

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5000
ir@scmmicro.com

SUMMARY

This summary highlights selected information from this proxy 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 proxy statement and prospectus, including annexes, and the other documents to which this proxy statement and prospectus refers, to fully understand the proposals to be considered at the SCM special meeting.

Information About SCM Microsystems and Bluehill ID

SCM Microsystems, Inc.

SCM Microsystems, Inc.
1900-B Carnegie Ave.
Santa Ana, CA 92705
+1-949-250-8888

SCM Microsystems GmbH
Oskar-Messter-Straße 13
85737 Ismaning, Germany
+49 89 9595-5000

Founded in 1990 in Munich, Germany, incorporated in Delaware in 1996 and publicly traded on both the NASDAQ Stock Market and the regulated market (Prime Standard) of the Frankfurt Stock Exchange, SCM is a global provider of security and identity solutions for secure access, secure identity and secure exchange. SCM designs, develops and sells hardware and system solutions that enable people to conveniently and securely access digital content and services and sells its solutions into two market segments: Security and Identity Solutions and Digital Media and Connectivity. SCM s Security and Identity Solutions products include a range of contact, contactless and mobile smart card reader technology, access control products and digital identity and transaction platforms and are used in a wide variety of industries for security, identity, contactless payment, e-health and electronic government services. 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 and licenses its products through a direct sales and marketing organization, as well as through distributors, value added resellers and systems integrators worldwide. SCM s distribution partners and customers include top-tier computer manufacturers, OEMs, smart card manufacturers, security application providers, distributors, system integrators, specialized resellers and VARs, financial institutions, enterprises and government agencies.

Bluehill ID AG

Bluehill ID AG
Dufourstrasse 121
CH-9001 St. Gallen, Switzerland
+41 44 783 80 43

Incorporated in March 2007 in Switzerland and publicly traded over-the-counter on the Open Market at the Frankfurt Stock Exchange since December 2007, Bluehill ID is an industrial holding group for investments in the radio frequency identification (RFID)/identification and security industries. Bluehill ID targets controlling stakes in small to medium-sized companies in the RFID/identification and security space to support its buy, build and grow strategy on a global scale. Bluehill ID has a global customer base that includes companies in many industries and applications. These include companies utilizing cards and readers in loyalty programs, ticketing, stadiums, skiing, corporate identification, physical and logical access control, passport control, and other applications. To date, Bluehill ID has acquired and integrated the following businesses and brands into its group of companies: ACiG Technology, Arygon Technologies, Multicard, TagStar Systems, and Syscan ID, which are individually referred to in this proxy statement and prospectus as a Bluehill ID Group Company and, collectively, as the Bluehill ID Group Companies. Multicard GmbH, Multicard AG, and TagStar Systems GmbH, which were all acquired by Bluehill ID effective as of June 30, 2008, represented Bluehill ID s first acquisitions and are referred to herein as Bluehill ID s predecessor companies.

1

The Offer (see page 45)

In order to effect the business combination, SCM will make the Offer to the Bluehill ID shareholders to acquire all of the issued and outstanding bearer shares in Bluehill ID, in exchange for shares of SCM common stock.

The shareholders of Bluehill ID who accept the terms of the Offer and tender their bearer shares in Bluehill ID during the course of the Offer will receive 0.52 shares of SCM common stock for each bearer share in Bluehill ID tendered. No fractional shares of SCM common stock will be issued. The consideration received by any shareholder of Bluehill ID will be rounded down to an integer number of shares of SCM common stock. In lieu of fractional shares, shareholders will receive an amount of cash for each fractional share calculated on the basis of 1.88 per share of SCM common stock, which was the Xetra closing price per share of SCM common stock as reported on the Deutsche Boerse AG website and Wertpapier-Informationssystem of Boersen-Zeitung on September 18, 2009.

Bluehill ID Options and Other Rights (see page 64)

Bluehill ID has authorized and implemented an executive share option plan and an executive bonus plan (collectively, the Bluehill ID Option Plans). Bluehill ID has a conditional share capital under which up to 4,000,000 bearer shares in Bluehill ID may be issued in connection with the Bluehill ID Option Plans. As of November 9, 2009, no options or awards had been issued or granted under the Bluehill ID Option Plans, but some options may be granted in the future pursuant to the terms of existing employment agreements. Options under the Bluehill ID Option Plans can only be granted within 60 days from publication of the audited annual report of Bluehill ID, which is expected to be no earlier than May 15, 2010. Bluehill ID has also granted to BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch, an option to purchase up to 3,914,790 bearer shares in Bluehill ID at an exercise price of CHF 1.00 per share until June 30, 2014 pursuant to that certain call option agreement dated September 8, 2009 (the Call Option Agreement). In addition, former shareholders of subsidiaries of Bluehill ID, including Yoonison BV, ACiG AG, TagStar Systems GmbH, and Multicard GmbH, as well as a seller of assets acquired by Multicard AG, are parties to certain earn out agreements (collectively, the Earn Out Agreements), pursuant to which bearer shares in Bluehill ID are issuable to these beneficiaries upon the achievement of specified performance targets based on Bluehill ID s and its subsidiaries sales and profits before taxes for 2009 and 2010. The actual number of bearer shares in Bluehill ID that are issuable under the Earn Out Agreements will be based on the average trading price of a bearer share in Bluehill ID during the month prior to issuance. Pursuant to the Business Combination Agreement, Bluehill ID has agreed to use all commercially reasonable efforts, adopt resolutions and enter into agreements, as may be required, with SCM and third parties such that, after the closing of the Offer, rights to acquire or receive shares of Bluehill ID pursuant to the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans shall cease to represent a right to acquire bearer shares in Bluehill ID and shall instead represent a right to acquire shares of SCM common stock. For more information, see the section entitled The Offer Treatment of Options.

Reasons for the Business Combination and Offer (see page 47)

SCM s Reasons for the Business Combination and Offer

The SCM board of directors has concluded that the business combination with Bluehill ID presents a compelling strategic opportunity for SCM to accelerate the development of a leadership position in contactless markets and technology and to further diversify its business geographically. In reaching its decision to approve the business combination and the Offer, the SCM board of directors considered a number of factors including, among other factors:

- the belief of the SCM board of directors that after the business combination, SCM will be better positioned to pursue and implement a strategy focused on the development of a leading position in the rapidly emerging market for contactless security and identity solutions and technologies;

the fact that both companies are focused on access control, identity management and RFID technologies and markets, which are important applications that leverage contactless technologies, and that each company operates under complementary brands within the RFID and smart card value chains;

- the fact that Bluehill ID has a diverse customer base in Latin America, Asia and Europe that complements SCM s business in those regions, and the belief that combining the two companies would further diversify and balance SCM s business geographically;

- the belief that the business combination would significantly 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 Bluehill ID s business, finances and operations and its evaluation of Bluehill ID s management, competitive positions and prospects.

For more information regarding SCM s reasons for approving the business combination and Offer, see the section entitled The Offer SCM s Reasons for the Business Combination and Offer; Recommendation of the SCM Board of Directors.

Bluehill ID s Reasons for the Business Combination and Offer

In reaching its decision to approve the business combination and the Offer, Bluehill ID s board of directors considered a number of factors including, among other factors:

- the fact that the business combination will allow the Bluehill ID shareholders to gain an equity interest in SCM, thus providing a vehicle for continued participation by the Bluehill ID shareholders in the future performance not only of the business of Bluehill ID, but also of SCM;

- the combined companies are expected to be well positioned to pursue and implement a united strategy focused on the concept of buy, build, and grow. The RFID industry in general and the ID segment in particular, is very fragmented and consolidation will be beneficial to the market, as well as Bluehill ID and SCM securityholders;

- the likelihood in the judgment of the board of directors of Bluehill ID that the conditions to be satisfied prior to consummation of the business combination will be satisfied or waived; and

- the cash position of each of Bluehill ID and SCM and the absence of any material debt of either of them.

For more information regarding Bluehill ID s reasons for approving the business combination and the Offer, see the section entitled The Offer Bluehill ID s Reasons for the Business Combination and Offer; Recommendation of the Bluehill ID Board of Directors.

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

Risk Factors (see page 9)

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

- SCM and Bluehill ID may not realize all of the anticipated benefits of the business combination;

provisions of the Business Combination Agreement may deter alternative business combinations;

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

if less than 90% of Bluehill ID s current shareholders tender their shares in the Offer, SCM will not be able to effect a squeeze out merger under Swiss law and Bluehill ID will continue to have minority shareholders;

SCM and Bluehill ID both have incurred and will incur significant expenses as a result of the business combination, which will reduce the amount of capital available to fund the business after the business combination;

if SCM or Bluehill ID has to pay the termination fee, it could negatively affect SCM business operations or Bluehill ID business operations, respectively;

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 the business combination;

Bluehill ID s corporate records are incomplete and Bluehill ID s title to certain interests may be subject to challenge;

SCM may not have uncovered all the risks associated with the acquisition of Bluehill ID and a significant liability may be discovered after the closing; and

if the conditions to the Offer are not met or waived, the business combination will not occur.

These risks and other risks are discussed in greater detail in the section entitled Risk Factors and elsewhere in this proxy statement and prospectus. SCM encourages you to read and consider all of these risks carefully.

Market Price and Dividend Information (see page 43)

The closing sale price per share of SCM common stock as reported on the NASDAQ Stock Market and on Xetra as reported on the Deutsche Boerse AG website and Wertpapier Informationssystem of Boersen-Zeitung on September 18, 2009, the last full trading day prior to the public announcement of entry into the Business Combination Agreement, was $2.66 and 1.88, respectively, and the closing sale price per share of SCM common stock on November 9, 2009 (the last practicable trading date before the filing of this proxy statement and prospectus) as reported on the NASDAQ Stock Market and on Xetra as reported on the Deutsche Boerse AG website and Wertpapier Informationssystem of Boersen-Zeitung was $2.89 and 1.79, respectively. Following the consummation of the business combination, SCM common stock, including the shares of SCM common stock issued in connection with the Offer, are expected to continue to trade on the NASDAQ Stock Market under the symbol SCMM and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange under the symbol SMY. 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.

The closing sale price per bearer share in Bluehill ID as reported on the Open Market of the Frankfurt Stock Exchange on September 18, 2009, the last full trading day prior to the public announcement of entry into the Business Combination Agreement, was 0.74, and the closing sale price per bearer share in Bluehill ID on November 9, 2009 (the last practicable trading date before the filing of this proxy statement and prospectus) as reported on the Open Market of the Frankfurt Stock Exchange was 0.87. Bluehill ID has never declared or paid cash dividends on its capital stock. Bluehill ID 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.

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

Opinion of Jupiter to the Board of Directors of SCM (see page 54)

Jupiter Capital Services GmbH, the financial advisor of SCM, delivered a written opinion, dated September 16, 2009, addressed to the board of directors of SCM, to the effect that, as of the date of the opinion and based on and subject to various assumptions, qualifications, and limitations described in the opinion, the consideration to be to be paid by SCM in the transaction 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 B* to this proxy statement and prospectus. Holders of SCM common stock are encouraged to read the opinion carefully in its entirety.

Table of Contents

Overview of the Business Combination Agreement

The Business Combination Agreement contains the terms and conditions of the proposed combination of the businesses of SCM and Bluehill ID and the Offer.

Exclusivity

Until the earlier of either the closing of the Offer or the termination of the Business Combination Agreement, neither SCM nor Bluehill ID may, in addition to other restrictions, commence or continue discussions or negotiations with any third party regarding a transaction or series of transactions which are identical or similar (with regard to the economic or legal consequences to the respective party s group) to the transaction contemplated by the Business Combination Agreement or which would result in such third party controlling the respective party.

Moreover, neither party to the Business Combination Agreement nor any of its subsidiaries shall without the prior written consent of the other party initiate discussions with any third party regarding any license or other transfer of rights or other transaction which could reasonably be expected to have a material adverse effect on the transaction.

In the event that one of the parties or any of its subsidiaries is contacted by a third party regarding a similar transaction, the respective party shall, to the extent permissible by its statutory confidentiality obligations (excluding contractual confidentiality undertakings), inform the other Party without undue delay that it has received such proposal by a third party and provide the details of such proposal including the identity of the third party. For a more complete discussion of the exclusivity provisions, see the section entitled The Business Combination Agreement Exclusivity.

Conditions to Closing of the Offer

In order to consummate the Offer and effect the business combination, among other conditions, SCM stockholders must approve the Offer and, specifically, the issuance of shares of SCM common stock in connection with the Offer, and at least 75% of the outstanding bearer shares in Bluehill ID must be tendered in the Offer. For a summary of the conditions to the closing of the Offer, see the section entitled The Business Combination Agreement The Offer Conditions to the Closing of the Offer in this proxy statement and prospectus.

Termination of the Business Combination Agreement

It is possible that the business combination and the transactions contemplated by the Business Combination Agreement will not be completed. This might happen if, for example, SCM s stockholders do not approve the issuance of the shares of SCM common stock in connection with the Offer or if other conditions to the closing of the Offer are not satisfied. For a more complete discussion of the manner in which the Business Combination Agreement may terminate, see the section entitled The Business Combination Agreement Termination in this proxy statement and prospectus.

Termination Fee

In certain circumstances, SCM or Bluehill ID may be obligated to pay the other party a lump sum termination fee of either $1.5 million or $2.0 million depending on the reason for the termination. For a more complete discussion of the termination fee, see the section entitled The Business Combination Agreement Termination Effect of Termination in this proxy statement and prospectus.

Interests of SCM and Bluehill ID Directors and Executive Officers

SCM

To the knowledge of SCM, no director or executive officer of SCM, nor any of their affiliates, have any interests in the Offer that differ from, or are in addition to, their interests as holders of SCM common stock. As of November 9, 2009, the directors and executive officers of SCM, together with their affiliates, beneficially owned in the aggregate approximately 3,626,604 shares of SCM common stock (including options held by them that are exercisable within 60 days), entitling them to exercise approximately 14.2% of the voting power of the SCM common stock at the SCM special meeting.

As of November 9, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of November 9, 2009, Lincoln Vale also beneficially owned approximately 9.8% of the outstanding bearer shares in Bluehill ID. Upon the closing of the Offer, it is anticipated that Lincoln Vale will beneficially own approximately 7.8% of the outstanding shares of SCM common stock. Dr. Hans Liebler, one of SCM s directors, is a partner of Lincoln Vale and may be deemed to beneficially own, either directly or indirectly through limited partnerships, the shares beneficially owned by Lincoln Vale. As a substantial holder of both SCM and Bluehill ID, Lincoln Vale may have objectives and interests that are different than those of SCM s other stockholders.

Bluehill ID

As of November 9, 2009, Bluehill ID beneficially owned and had the right to vote 1,201,004 shares of SCM common stock, and Ayman S. Ashour, Bluehill ID s CEO and President of its board of directors, beneficially owned 104,000 shares, collectively representing approximately 5.2% of the outstanding shares of SCM common stock. The board of directors of Bluehill ID, including Messrs. Ashour and Wenzel and Dr. Boersch, will have the power to determine how the shares of SCM common stock will be voted at the SCM special meeting of its stockholders to consider the Offer and, specifically, the issuance of new shares of SCM common stock in connection with the Offer.

Certain members of the Bluehill ID board of directors and certain executive officers of Bluehill ID have interests in the business combination that may be different from, or in addition to, interests they may have as Bluehill ID shareholders. The Bluehill ID board of directors was aware of these potential conflicts of interest and considered them, among other matters, in reaching their decision to approve the Business Combination Agreement and the Offer, and to recommend that the Bluehill ID shareholders accept the Offer.

As of November 9, 2009, the directors and executive officers of Bluehill ID, together with their affiliates, beneficially owned in the aggregate 22,174,687, or approximately 62% of, the bearer shares in Bluehill ID, entitling them to exercise approximately 57% of the voting rights of Bluehill ID. This includes an option to purchase 3,914,790 bearer shares in Bluehill ID at an exercise price of CHF 1.00 per share until June 30, 2014 pursuant to the Call Option Agreement held by BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch.

Ownership of SCM Following the Offer (see page 66)

After the business combination, the percentage ownership of the outstanding shares of SCM held by current SCM stockholders and current Bluehill ID shareholders will depend on the percentage of outstanding bearer shares in Bluehill ID that are tendered pursuant to the Offer. If all of the bearer shares in Bluehill ID currently outstanding (which excludes any bearer shares in Bluehill ID that may be issued or issuable after the date of this proxy statement and prospectus, including pursuant to the Call Option Agreement) are tendered in the Offer, post-Offer the current stockholders of SCM will hold approximately 60% of the outstanding shares of SCM common stock and the current shareholders of Bluehill ID will hold approximately 40% of the outstanding shares of SCM common stock. This includes 1,201,004 shares of SCM common stock, representing 4.8% of the currently outstanding shares of SCM common stock, that Bluehill ID holds. Immediately after the closing of the Offer, these shares are expected to continue to be held by Bluehill ID, but the board of directors of Bluehill ID may determine to sell these shares on terms to be determined by the board, including to a transferee that may be an affiliate of SCM or Bluehill ID or one of their respective officers and directors. In addition, it is currently anticipated that (i) Lincoln Vale will beneficially own approximately 7.8% of the outstanding shares of SCM common stock; (ii) Mountain Partners AG, together with its affiliates and certain related parties, including BH Capital Management AG, Daniel S. Wenzel and Dr. Cornelius Boersch, will directly or indirectly beneficially own approximately 25.2% of the outstanding shares of SCM common stock; and (iii) Ayman S. Ashour, Bluehill ID s Chief Executive Officer and President of its board of directors, will directly or indirectly beneficially own, including through BH Capital Management AG, approximately 10.8% of the outstanding shares of SCM common stock.

Table of Contents

Material U.S. Federal Income Tax Consequences of the Business Combination (see page 171)

Neither SCM nor Bluehill ID will recognize a gain or loss under U.S. tax law as a result of the consummation of the Offer. Holders of SCM common stock will also not recognize any gain or loss as a result of the Offer. For a complete discussion of the tax treatment of the business combination, see Material United States Federal Income Tax Consequences of the Business Combination.

Regulatory Approvals (see page 65)

The Offer is not subject to any federal, state or foreign regulatory approvals, other than the approval by the Securities and Exchange Commission of the Registration Statement on Form S-4 of which this proxy statement and prospectus is a part, the approval by the German Federal Financial Supervisory Authority (BaFin) of the German prospectus, and the approval for the listing of the new shares of SCM common stock on the NASDAQ Stock Market and the Frankfurt Stock Exchange.

NASDAQ and Frankfurt Stock Exchange Listing (see page 65)

The Business Combination Agreement provides that the approval for the listing on the NASDAQ Stock Market of the shares of SCM common stock to be issued in connection with the Offer is a condition precedent of the Offer, and neither party may waive this condition. In addition, the parties have agreed to use their respective commercially reasonable efforts to obtain the approval for the listing of the new shares of SCM common stock on the Frankfurt Stock Exchange as soon as reasonably practicable after the closing of the Offer.

Anticipated Accounting Treatment (see page 66)

SCM will account for the business combination as a purchase of the business, which means that the assets and liabilities of Bluehill ID will be recorded at their fair value and the results of operations of Bluehill ID will be included in SCM s results from and after the effective time of the business combination. The purchase method of accounting is based on Accounting Standards Codification 805-10, Business Combinations.

Appraisal Rights and Dissenters Rights (see page 65)

SCM stockholders are not entitled to dissenters rights or appraisal rights under the Delaware General Corporation Law, Swiss corporate law, or German corporate law, in connection with the business combination or the Offer.

SCM Board and Management (see page 149)

Following the closing of the Offer, the board of directors of SCM will consist of nine directors, comprised of six current SCM directors and three designees of Bluehill ID. For a complete discussion of the expected board of directors following the closing of the offer, compensation of directors, and compensation of executives, see the sections entitled Management.

Comparison of Stockholder Rights (see page 176)

The rights of holders of bearer shares in Bluehill ID are governed by Bluehill ID s articles of incorporation and Swiss corporate law. The rights of SCM stockholders are governed by SCM s certificate of incorporation, SCM s bylaws and Delaware law. Accordingly, the rights associated with bearer shares in Bluehill ID are different from the rights associated with SCM common stock. After the business combination, Bluehill ID shareholders who have tendered their bearer shares in Bluehill ID will become SCM stockholders and will have rights that are different from those they have now as Bluehill ID shareholders. See the section entitled Comparison of Stockholders Rights and Corporate Governance Matters for a discussion of certain aspects of Delaware corporate law and Swiss law, and the different rights associated with SCM common stock and bearer shares in Bluehill ID.

Table of Contents

The SCM Special Meeting Of Stockholders (see page 187)

The SCM special meeting will be held at SCM s United States office, located at 1900 Carnegie Avenue, Building B, Santa Ana, California 92705, at 1:00 p.m., local time, on December 18, 2009. Only holders of record of SCM common stock at the close of business on November 9, 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 25,134,985 shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately 352 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 is a proposal to approve the Offer and, specifically, the issuance of new shares of SCM common stock in connection with the Offer to effect the business combination proposed under the Business Combination Agreement. The second is a proposal to consider and vote upon a motion to adjourn or postpone the SCM special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the first proposal. If you are an SCM stockholder, 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 and recalled to obtain a quorum and the necessary votes.

Table of Contents

RISK FACTORS

The business combination and the Offer involves risks for SCM stockholders and Bluehill ID shareholders. SCM stockholders will be choosing to permit significant dilution of their percentage ownership of SCM by voting in favor of the Offer and, specifically, the issuance of additional shares of SCM common stock in connection with the Offer in order to complete the transaction. SCM s and Bluehill ID s businesses 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. Any of the risks, uncertainties and other factors could have a materially adverse effect on SCM s or Bluehill ID s respective business, financial condition, results of operations, cash flows or product market share and could cause the trading price of their stock to decline substantially. In addition to the risks that the businesses of SCM and Bluehill ID currently face, after the business combination, the combined companies 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 all of the general or specific risk factors that may affect SCM, Bluehill ID or the combined companies, and these risk factors may not be exhaustive. You should carefully consider the risks described below and the other information contained in this proxy 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 SCM common stock.

Risks Relating to the Business Combination and Offer

SCM and Bluehill ID may not realize all of the anticipated benefits of the business combination.

To be successful after the business combination, SCM and Bluehill ID will need to integrate their current businesses, operations and structure. The combination of two independent companies is a complex, costly and time-consuming process. As a result, the combined companies will be required to devote significant management attention and resources to integrating the diverse business practices and operations of SCM and Bluehill ID. The integration process may divert the attention of the combined companies 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 expected benefits of the business combination. The failure of the combined companies to meet the challenges involved in successfully integrating the operations of SCM and Bluehill ID or otherwise to realize any of the anticipated benefits of the business combination could cause an interruption of, or a loss of momentum in, the activities of the combined companies 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 Bluehill ID.

In addition, even if the businesses and operations of SCM and Bluehill ID are integrated successfully, the combined companies may not fully realize the expected benefits of the business combination, including sales or growth opportunities that were anticipated, within the anticipated time frame, or at all. Further, because the businesses of SCM and Bluehill ID differ, the results of operations of the combined companies and the market price of SCM common stock after the business combination may be affected by factors different from those existing prior to the business combination and may suffer as a result of the business combination. Bluehill ID s anticipated growth and expansion from the combination with SCM may not be realized to the extent or in the time frame expected.

Table of Contents

Cross product sales, increased geographical sales coverage and other synergies may not occur or develop to the extent envisioned for the future. As a result, SCM and Bluehill ID cannot assure you that the integration of the businesses and operations of SCM with Bluehill ID will result in the realization of the full benefits anticipated from the business combination.

Provisions of the Business Combination Agreement may deter alternative business combinations.

Restrictions in the Business Combination Agreement prohibit, in certain contexts, SCM and Bluehill ID from soliciting any acquisition proposal or offer for a combination with any other party, including a proposal that could be advantageous to the stockholders of SCM or shareholders of Bluehill ID when compared to the terms and conditions of the transaction described in this proxy statement and prospectus. In addition, if the Business Combination Agreement is terminated under certain specified circumstances relating to effecting a business combination with a different party, SCM or Bluehill ID may be required to pay the other party a lump sum termination fee of $1.5 million or $2.0 million depending on the reason for the termination. These provisions may deter third parties from proposing or pursuing alternative business combinations that could result in greater value to SCM stockholders or Bluehill ID shareholders than the business combination.

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

Holders of bearer shares in Bluehill ID who tender their shares pursuant to the Offer will receive 0.52 shares of SCM common stock for each bearer share in Bluehill ID tendered. The Business Combination Agreement does not include an adjustment mechanism based on increases or decreases in the market price of SCM common stock for the determination of the amount of consideration that will be paid.

The value of SCM common stock issued in the transaction will depend on its market price at the time of the closing of the Offer, as the exchange ratio for the bearer shares in Bluehill ID at the closing of the Offer is fixed.

Pursuant to the Business Combination Agreement, the share exchange ratio of 0.52 shares of SCM common stock that Bluehill ID shareholders will receive for each bearer share in Bluehill ID tendered is unaffected by the share price of SCM common stock, as reflected on the NASDAQ Stock Market or the Frankfurt Stock Exchange. Increases in the value of SCM common stock or decreases in the value of Bluehill ID stock will result in a higher price being paid by SCM for bearer shares in Bluehill ID and more value received by Bluehill ID shareholders in the business combination. Pursuant to the Business Combination Agreement, SCM will not have the right to terminate or renegotiate the Business Combination Agreement as a result of any increase in the price per share or value of the SCM common stock.

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 the business combination.

If the transaction is consummated, the new shares of SCM common stock issued will become saleable immediately following the closing of the Offer. Consequently, a substantial number of additional shares of SCM common stock will be eligible for resale in the public market. Current stockholders of SCM and former shareholders of Bluehill ID may not wish to continue to invest in the operations of the combined companies after the business combination, or for other reasons, may wish to dispose of some or all of their interests in SCM after the business combination. Sales of substantial numbers of shares of both the newly issued and the existing SCM common stock in the public market following the business combination could adversely affect the market price of such shares.

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

If the Offer is completed and assuming that all currently outstanding bearer shares in Bluehill ID are tendered during the course of the Offer, SCM and Bluehill ID expect that SCM will issue approximately 16,562,015 shares of SCM common stock as consideration for the outstanding bearer shares in Bluehill ID. This does not include shares of SCM common stock that may be issued or be issuable due to the conversion of options or rights to acquire or receive bearer shares in Bluehill ID in connection with the transactions contemplated by the Business Combination

Agreement. SCM stockholders will continue to own their existing shares of SCM common stock, which will not be affected by the business combination, except that the issuance of the shares of SCM common stock described above will cause a significant reduction in the relative percentage interests of current SCM stockholders in earnings and voting, as well as liquidation, book and market value.

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

If all of the bearer shares in Bluehill ID currently outstanding (which excludes any bearer shares in Bluehill ID that may be issued or issuable after the date of this proxy statement and prospectus, including pursuant to the Call Option Agreement) are tendered in the Offer, post-Offer the current stockholders of SCM will hold approximately 60% of the outstanding shares of SCM common stock and the current shareholders of Bluehill ID will hold approximately 40% of the outstanding shares of SCM common stock. This includes 1,201,004 shares of SCM common stock, representing 4.8% of the currently outstanding shares of SCM common stock, that Bluehill ID holds. Accordingly, such former Bluehill ID shareholders may 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 Bluehill ID 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 Bluehill ID shareholders may differ from the interests of other stockholders.

SCM s interests in Bluehill ID may be further diluted.

Bluehill ID is a party to the Call Option Agreement with BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch, dated September 8, 2009, which grants BH Capital Management AG an option to purchase up to 3,914,790 bearer shares in Bluehill ID. In addition, former shareholders of subsidiaries of Bluehill ID, including Yoonison BV, ACiG AG, TagStar Systems GmbH, and Multicard GmbH, as well as a seller of assets acquired by Multicard AG, are parties to the Earn Out Agreements, pursuant to which bearer shares in Bluehill ID will be issued to these beneficiaries upon the achievement of specific performance targets. The actual number of bearer shares in Bluehill ID that are issuable under the Earn Out Agreements will be based on the average trading price of a bearer share in Bluehill ID in the month prior to issuance. Based on an average price per share of a bearer shares in Bluehill ID during the month of September 2009 of 0.77818, up to an aggregate of 1,161,685 bearer shares in Bluehill ID could be issuable under the Earn Out Agreements. Bluehill ID has also authorized and implemented the Bluehill ID Option Plans. Bluehill ID has a conditional share capital under which up to 4,000,000 bearer shares in Bluehill ID may be issued in connection with the Bluehill ID Option Plans. Pursuant to the Business Combination Agreement, Bluehill ID will use all commercially reasonable efforts, adopt resolutions and enter into agreements, as may be required, with SCM and third parties such that, after the closing of the Offer, the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans shall cease to represent a right to acquire or receive shares in Bluehill ID and shall instead represent a right to acquire or receive shares of SCM common stock. If, however, respective counter-parties do not enter into such agreements, these counter-parties remain entitled to acquire or receive bearer shares in Bluehill ID, which could lead to a dilution of SCM with regard to its interests in Bluehill ID.

If less than 90% of Bluehill ID s current shareholders tender their shares in the Offer, SCM will not be able to effect a squeeze-out merger under Swiss law and Bluehill ID will continue to have minority shareholders.

If 90% or more of Bluehill ID s shareholders tender their shares in the Offer, under Swiss law, SCM would be able to effect a squeeze-out merger of Bluehill ID, pursuant to which Bluehill ID would be merged with and into a wholly-owned subsidiary of SCM to be newly formed, resulting in the dissolution of Bluehill ID. If SCM does not acquire at least 90% of Bluehill ID, there is a risk that the squeeze-out merger would not be approved by the required

Table of Contents

90% of votes of Bluehill ID, and therefore a squeeze-out merger would not be possible. As a result, Bluehill ID would remain a separate legal entity and Bluehill ID s remaining minority shareholders will continue to have certain rights as provided by Swiss corporate law or under Bluehill ID s articles of incorporation which will restrict SCM s and Bluehill ID s corporate flexibility and result in additional costs to SCM and Bluehill ID. Such minority rights include the right to participate at shareholder meetings, the right to information, the right to initiate a special audit, the right to call a meeting of shareholders, the right to profit and liquidation proceeds, and pre-emptive subscription rights.

If the conditions to the Offer are not met or waived, the business combination will not occur.

Even if the Offer and the issuance of the shares of SCM common stock to be issued in the Offer are approved by the stockholders of SCM, specified conditions must be satisfied or waived to complete the Offer. These conditions are described in the Business Combination Agreement attached hereto as *Annex A*. SCM cannot assure you that all of the conditions will be satisfied. If the conditions are not satisfied or waived, the business combination will not occur or will be delayed, which would result in the loss of some or all of the expected benefits of the business combination.

Certain conditions of the Offer may be waived by SCM without re-soliciting SCM stockholder approval.

The Offer is subject to the satisfaction of certain conditions set forth in the Business Combination Agreement. SCM may entirely or partially waive certain of these conditions at its sole discretion until the end of the working day prior to the expiration of the Offer. In the event of a waiver of any condition, SCM will not be required to resolicit the SCM stockholders, and may complete the transaction without seeking further stockholder approval.

The date on which the Offer will close is uncertain.

The date on which the Offer will close depends on the satisfaction of the conditions set forth in the Business Combination Agreement, or the waiver of certain of those conditions by SCM or Bluehill ID. While SCM expects to complete the business combination near the beginning of 2010, the completion date of the transaction might be earlier or later than expected because of unforeseen events.

If NASDAQ determines that the business combination 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 business combination, NASDAQ will review the terms and anticipated effect of the business combination to determine if a change of control will be deemed to occur under its rules. If NASDAQ determines that the business combination will result in a change of control of SCM, SCM will be required to submit an initial listing application and meet all initial NASDAQ inclusion criteria as set forth in the Marketplace Rules of NASDAQ, and pay all applicable fees, before consummation of the transaction. If SCM is required to submit an initial listing application, NASDAQ s review of such application may take several weeks, which could cause a delay in the consummation of the Offer. There is also a risk that SCM will not meet NASDAQ s listing requirements and that NASDAQ may not approve the initial listing application without substantial revision or delay, or at all.

If the business combination is not consummated, SCM may not be successful in its strategy to grow revenue and increase its operational scale.

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 business combination with Bluehill ID 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 is not able to increase its operational scale, it may not be able to fully leverage its global infrastructure, or to pursue its other growth strategies effectively. SCM may elect to pursue mergers or acquisitions with other companies, and there is no guarantee that these efforts will be successful. Additionally, if the

Table of Contents

transaction is not consummated, then the financial and other resources that SCM has expended on the transaction may not be recoverable.

Bluehill ID s business may be negatively affected if the transaction is not consummated and Bluehill ID remains a stand-alone entity.

Bluehill ID s business may be negatively affected if the transaction is not consummated and Bluehill ID remains a stand-alone entity. If the business combination is not completed, the consequences could adversely affect Bluehill ID s business and results of operations, including the following:

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

Bluehill ID may be required to pay SCM a lump sum termination fee of either $1.5 million or $2.0 million depending on the reason for the termination;

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 Bluehill ID management s attention away from 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 business combination does not occur; and

Bluehill ID may be unable to locate another entity to combine with at a later date, or under terms as favorable as those in the Business Combination Agreement.

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

SCM and Bluehill ID both have incurred and will incur significant expenses as a result of the business combination, which will reduce the amount of capital available to fund the combined companies.

SCM and Bluehill ID have incurred, and will continue to incur, significant expenses related to the business combination. These expenses include investment banking fees, legal fees, accounting fees, and printing and other costs. There may also be unanticipated costs related to the business combination. As a result, the combined companies will have less capital available to fund their activities after the business combination.

The shares of SCM common stock to be received by Bluehill ID shareholders as a result of the transaction will have different rights from the bearer shares in Bluehill ID.

The rights of holders of bearer shares in Bluehill ID are governed by Bluehill ID s articles of incorporation and Swiss corporate law. The rights of SCM stockholders are governed by SCM s certificate of incorporation, SCM s bylaws and Delaware law. Accordingly, the rights associated with bearer shares in Bluehill ID are different from the rights associated with SCM common stock. After the business combination, Bluehill ID shareholders who have tendered their bearer shares in Bluehill ID will become SCM stockholders and will have rights that are different from those they have now as Bluehill ID shareholders. See the section entitled Comparison of Stockholders Rights

13

Table of Contents

and Corporate Governance Matters for a discussion of certain aspects of Delaware corporate law and Swiss corporate law, and the different rights associated with SCM common stock and bearer shares in Bluehill ID.

After the business combination, 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 U.S. 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 Securities and Exchange Commission 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 business combination, Bluehill ID, as a subsidiary of SCM, will be subject to the Sarbanes-Oxley Act, and SCM will continue to be subject to all of the same obligations. Bringing Bluehill ID into compliance will require significant expenditures and 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 obligations may also require SCM to hire additional personnel after the business combination. Bluehill ID 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 business combination to attest to, internal controls, as required by Section 404 of the Sarbanes-Oxley Act. SCM and Bluehill ID cannot be certain 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 business combination. If, after the business combination, 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 U.S. 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 business combination, it will harm the ability of the business to grow.

SCM and Bluehill ID have each grown their businesses through the services of many people. The success of the combined companies 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 Bluehill ID may be less compatible than anticipated and, after the business combination, some employees might leave the combined companies 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 business combination.

Completion of the business combination will require a significant amount of attention from SCM and Bluehill ID management and this diversion of management attention away from ongoing operations could adversely affect ongoing operations and business relationships.

Because completing the business combination requires a substantial amount of attention from the management of each of SCM and Bluehill ID, both SCM and Bluehill ID management will divert a significant amount of its attention away from the day-to-day operations of their respective businesses. As a result, SCM s and Bluehill ID s respective business relationships and ongoing operations may suffer during this period.

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

There may be risks that SCM failed to discover in the course of performing its due diligence investigations related to the acquisition of Bluehill ID, which could result in significant liabilities arising after the consummation

Table of Contents

of the transaction. The Business Combination Agreement does not provide for SCM s indemnification by the former Bluehill ID shareholders against any of Bluehill ID s liabilities, should they arise or become known after the closing of the Offer. Furthermore, there is no escrow account or indemnity agreement protecting SCM in the event of any breach of Bluehill ID s representations and warranties in the Business Combination Agreement. 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.

Bluehill ID s corporate records may be incomplete.

Certain Bluehill ID Group Companies were not able to provide SCM with complete corporate records as part of the due diligence process in order to document the history of their share ownership, and certain share transfers may be non-compliant with form requirements applicable to such share transfer. Besides uncertainties as to the ownership in any such Bluehill ID Group Company, this could result in difficulties with performing corporate functions, future challenges to shareholders resolutions passed or potential litigation involving the Bluehill ID Group Company concerned. Any of the foregoing may have a material adverse effect on Bluehill ID s business, financial condition or its results of operations.

Provisions of the Business Combination Agreement regarding the payment of a termination fee by SCM to Bluehill ID or by Bluehill ID to SCM could negatively affect Bluehill ID s business operations or SCM s business operations if the Business Combination Agreement is terminated.

In the event the transaction is terminated by SCM or Bluehill ID in circumstances that obligate either of SCM or Bluehill ID, as the case may be, to pay to the other party the lump sum termination fee of either $1.5 million or $2.0 million depending on the reason for the termination, the results of either SCM s business operations or Bluehill ID s business operations, as the case may be, may be adversely impacted.

SCM s and Bluehill ID s customers may seek to change the existing business relationship with SCM and Bluehill ID in reaction to the announcement or completion of the business combination.

In response to the announcement or completion of the business combination, existing or prospective customers of SCM and Bluehill ID may delay or defer their procurement or other decisions concerning SCM and Bluehill ID, 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 Bluehill ID s respective business, regardless of whether the transaction is ultimately completed.

Risks Relating to the Businesses of SCM and Bluehill ID

SCM and Bluehill ID may be exposed to risks of intellectual property infringement by third parties.

Each of SCM s and Bluehill ID s success depends significantly upon its proprietary technology. SCM and Bluehill ID currently rely on a combination of protection under patent, copyright and trademark laws, trade secrets, confidentiality agreements and contractual provisions to protect their proprietary rights, which afford only limited protection. SCM and Bluehill ID may not be successful in protecting their respective 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 patents will fail to provide SCM and Bluehill ID with any competitive advantages.

There has been a great deal of litigation in the access control, identity management and RFID technology industry regarding intellectual property rights, and from time to time SCM and/or Bluehill ID may be required to use litigation to protect their respective proprietary technologies. This may result in SCM and/or Bluehill ID incurring substantial costs and they may not be successful in any such litigation.

Despite SCM s and Bluehill ID s efforts to protect their proprietary rights, third parties may attempt to copy aspects of their products or to use their proprietary information, software or trademarks without authorization either as a result of illegal behavior or due to the lack of adequate protection of the relevant products, information, software or trademarks of SCM or Bluehill ID. 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 U.S. Because many of their products are sold and a significant portion of their business is conducted outside the U.S., SCM s and Bluehill ID s exposure to intellectual property risks may be higher. There is also a risk that SCM s and Bluehill ID s competitors will independently develop similar technology or duplicate their products or design successfully circumventing patents or other intellectual property rights. If the combined companies are unsuccessful in protecting their intellectual property or its products or technologies are duplicated by others, the combined companies could be harmed.

SCM and Bluehill ID face risks from future claims of third parties and litigation.

From time to time, SCM and Bluehill ID may be subject to claims of third parties, possibly resulting in 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 or Bluehill ID to redesign their products, require SCM or Bluehill ID to accept returns of products and to write off inventory, or have other adverse effects on its their business. Any of the foregoing could have a material adverse effect on SCM s or Bluehill ID s business, financial condition and results of operations. In addition, the cost of defending any such litigation, even if resolved favorably, could be substantial. Such litigation could also substantially divert the attention of management.

For example, in connection with its acquisition of Hirsch Electronics Corporation, a complaint was filed against SCM, Felix Marx, and Hirsch Electronics Corporation alleging multiple causes of action in connection with SCM s acquisition of Hirsch Electronics Corporation and a pre-existing settlement agreement. The case was ultimately settled, however other potential lawsuits could arise in connection with SCM s acquisition activities that may be concluded in a manner adverse to SCM that could have a material adverse effect on its business, financial condition, and results of operations.

SCM expects the likelihood of intellectual property infringement and misappropriation claims may increase as the number of products and competitors in its markets grows, intellectual property used by it or Bluehill ID for their products and applications may not always be adequately protected, and SCM and Bluehill ID increasingly incorporate third-party technology into their products. As a result of infringement claims, SCM and Bluehill ID could be required to license intellectual property from a third-party or redesign their products. Licenses may not be offered when needed or on acceptable terms. If SCM or Bluehill ID do obtain licenses from third parties, they may be required to pay license fees or royalty payments or they may be required to license some of their intellectual property to others in return for such licenses. If SCM or Bluehill ID is unable to obtain a license that is necessary for it or its third-party manufacturers to manufacture its allegedly infringing products, they 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 and Bluehill ID s suppliers and customers may be subject to infringement claims based on intellectual property included in their 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 or Bluehill ID may periodically engage in litigation as a result of these indemnification obligations. SCM s and Bluehill ID s insurance policies exclude coverage for third-party claims for patent infringement.

Changes to financial accounting standards may affect SCM s results of operations and cause SCM or Bluehill ID to change its business practices.

SCM prepares its financial statements to conform with U.S. generally accepted accounting principals (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.

Bluehill ID s historical financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the International Accounting Standards Board (IFRS/IASB). These accounting principles are different than U.S. GAAP and are subject to different interpretations by the various financial institutions formed to interpret and create these appropriate accounting rules and policies. A change in those rules or policies could have a significant effect on Bluehill ID s reported results and may affect its reporting of transactions completed before a change is announced. Any changes required in the future to conform to U.S. GAAP accounting rules or policies may have a significant effect on Bluehill ID s reported results and may result in significant accounting charges.

Following completion of the business combination, SCM will be required to file a Current Report on Form 8-K with the Securities and Exchange Commission including financial statements of Bluehill ID audited in accordance with U.S. Generally Accepted Auditing Standards. If SCM fails to timely file this Form 8-K, or if SCM fails to timely file any other report required under Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and such failure occurs during the twelve-month period prior to the filing by SCM of a registration statement, it will have forfeited its eligibility to use a registration statement on Form S-3.

SCM and Bluehill ID face risks associated with acquisitions and strategic transactions.

A component of each of SCM s and Bluehill ID s ongoing business strategies is to seek to buy businesses, products and technologies that complement or augment its existing businesses, products and technologies. SCM and Bluehill ID have 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 the combined companies 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 or Bluehill ID 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 or Bluehill ID s financial condition and results of operations. SCM or Bluehill ID may not be successful with any such acquisition.

Acquisitions and strategic investments may also lead to substantial increases in non-current assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially and adversely impact SCM s or Bluehill ID s financial condition and results of operations.

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.

Table of Contents

SCM and Bluehill ID conduct a significant portion of their operations outside the U.S. Economic, political, regulatory and other risks associated with international sales and operations could have an adverse effect on the combined companies results of operations.

SCM conducts a substantial portion of its business in Europe and Asia. Approximately 57% of SCM s revenue for the year ended December 31, 2008, 49% of SCM s revenue for the year ended December 31, 2007 and 57% of SCM s revenue for the year ended December 31, 2006 was derived from customers located outside the U.S. In addition to its corporate headquarters being located in Switzerland, Bluehill ID conducts a substantial portion of its business in Germany, and in the rest of Europe, Canada, Brazil, and Australia. Approximately 96% of Bluehill ID s revenue for the six months ended June 30, 2009 and approximately 98% of revenue for the year ended December 31, 2008 was derived from customers located outside the U.S. Because a significant number of its and Bluehill ID s principal customers are located in other countries, SCM anticipates that international sales will continue to account for a substantial portion of the combined companies revenues. As a result, a significant portion of the combined companies sales and operations may continue to be subject to risks associated with foreign operations, any of which could impact the combined companies 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.

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

SCM and Bluehill ID sell their 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 RFID-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. Bluehill ID sells its smart card readers for use in various smart card-based identification programs in Europe, such as transit, payments, ticketing, national and regional IDs and stadiums, which are applications that are not yet widely implemented. SCM and Bluehill ID are also focused on expanding sales of professional services, identity management and biometrics 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. Additionally, SCM and Bluehill ID have a strategy of expanding sales of existing product lines into new geographic markets and diversifying and expanding their customer base, and SCM has recently added sales resources to target authentication programs in the government and enterprise sectors in Asia, and has begun to target the photo kiosk markets in Europe and Asia. Further, SCM has initiated business development activities aimed at penetrating the worldwide financial services and enterprise markets with new contactless reader products.

Because the markets for SCM s and Bluehill ID s products are still emerging, demand for their 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 and Bluehill ID s revenues and gross profit margins could decline or fail to grow. SCM and Bluehill ID cannot predict the future growth rate, if any, or size or composition of the market for any of their products. Neither SCM s nor Bluehill ID s target markets have consistently grown or developed as quickly as SCM or Bluehill ID expected, and SCM and Bluehill ID have 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 and Bluehill ID 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 ongoing global economic uncertainty;

SCM s and Bluehill ID s ability to demonstrate to their potential customers and partners the value and benefits of new products;

the ability of SCM s and Bluehill ID s competitors to develop and market competitive solutions for emerging applications in their target markets and their 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 Bluehill ID 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.

SCM and Bluehill ID are exposed to credit risk on their respective accounts receivables. This risk is heightened in times of economic weakness.

SCM and Bluehill ID are each exposed to credit risk in their respective accounts receivable, and this risk is heightened in times of economic weakness. In addition, SCM distributes its products both through third-party resellers and directly to certain customers, and a majority of its 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.

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

SCM and Bluehill ID may seek or need to raise additional funds. SCM s and Bluehill ID s ability to obtain financing for general corporate and commercial purposes or acquisitions depends on their respective operating and financial performance, and is also subject to prevailing economic conditions and to financial, business and other factors beyond their control. The 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. An unprecedented level of intervention from the U.S. and other governments has been seen. As a result of such disruption, SCM s and Bluehill ID 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 SCM or Bluehill ID would like, or need, to do so. Either of these events could have an impact on SCM s and Bluehill ID s flexibility to fund their business operations, make capital expenditures, pursue additional expansion or acquisition opportunities, or make another discretionary use of cash and could adversely impact SCM s and Bluehill ID s 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 and Bluehill ID.

Table of Contents

Continuing disruption in the global financial markets may adversely impact customers and customer spending patterns.

Continuing disruption in the global financial markets as a result of the ongoing global financial uncertainty 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 and Bluehill ID s products could decrease and differ materially from their current expectations. For example, as part of SCM s focus on the commercial and industrial markets, a portion of SCM s business is subject to conditions in the commercial construction and renovation sector. A decline in new commercial construction or a significant decline in renovation projects due to the global economic recession could have a material adverse effect on the results of operations of this business. 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 suppliers.

SCM s and Bluehill ID s ability to meet customers demands depends, in part, on their ability to obtain timely and adequate delivery of quality materials, parts and components or products from its suppliers. Certain of SCM s and Bluehill ID 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 economic weakness either regionally or globally, 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 and Bluehill ID s financial results. In addition, credit constraints at key suppliers could result in accelerated payment of accounts payable by SCM and Bluehill ID, impacting SCM s and Bluehill ID s cash flows.

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

A number of factors impact SCM s and Bluehill ID s tax positions, 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 deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes; and
- in the case of SCM, 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 and Bluehill ID to project or achieve expected tax results. An increase or decrease in SCM s or Bluehill ID s tax liabilities due to these or other factors could adversely affect its financial results in future periods.

Table of Contents

Other Risks Relating to SCM s Business

SCM has incurred operating losses and may not achieve profitability.

SCM has a history of losses with an accumulated deficit of $205.7 million as of June 30, 2009. 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.

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

SCM s two main components of revenues in any given quarter are sales of physical access control solutions and smart card reader technology. In SCM s physical access control business, sales tend to be relatively linear (regularly spaced throughout the quarter) because they are tied to large projects with more predictable timelines. Historically, many of SCM s smart card reader 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. As a result, smart card reader revenue in any quarter depends on contracts entered into or orders booked and shipped in that quarter. This makes it difficult to predict revenues both in SCM s smart card reader business and for the company overall. The 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, and even in the case of established customers, it may take up to a year for SCM to receive approval for a given purchase from the customer. 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.

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 48% of SCM s revenue in the second quarter of 2009 and 58% of revenue in 2008. 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 first quarter of 2009, sales of SCM s digital media readers were significantly lower than in previous quarters due to reduced orders from one major customer in this business. Variations in the timing or patterns of customer orders could also increase SCM s dependence on other customers in

22

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.

A significant portion of SCM s revenue is dependent upon sales to government programs, which are impacted by uncertainty of timelines and budgetary allocations, delays in developing technology standards, and changes in laws or regulations pertaining to security.

Large government programs are a primary target for SCM s Security and Identity Solutions business, as smart card technology is increasingly used to enable applications ranging from authorizing building and network access for federal employees to paying taxes online, to citizen identification, to receiving health care. Sales to U.S. government agencies and other entities comprise a significant portion of SCM s sales. Additionally, SCM has sold a significant proportion of its smart card reader 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 SCM s overall revenue.

Government-sponsored projects are typically characterized by the uncertainty of their timelines and budget allocations and delays in developing technology standards to enable program applications. Additionally, many government programs are subject to changes in laws or regulations, such as those pertaining to authentication of government personnel, trade practices or health insurance documentation. Changes in fiscal policies or decreases in available government funding or grants could adversely affect SCM s sales, as could changes in government programs or applicable requirements. Additionally, discontinuance of, changes in, or lack of adoption of laws or regulations pertaining to security could adversely affect SCM s financial performance.

In recent periods, SCM has experienced a significant decrease in sales of its external smart card readers to the U.S. government, primarily due to weaker demand in this market as a result of ongoing project and budget delays and a movement by the U.S. government towards purchasing computer equipment with embedded reader capabilities. SCM continues to believe that it remains a leading supplier of smart card reader technology to the U.S. government sector and that it is not losing market 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 health card 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.

Hirsch Electronics LLC, a wholly-owned subsidiary of SCM (f/k/a Hirsch Electronics Corporation) (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 SCM s 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

Table of Contents

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 SCM s quarterly and annual revenues and operating results to fluctuate in a manner that is difficult to predict.

SCM s business is dependent upon receipt of certain governmental approvals or certifications, and failure to receive such approvals or certifications could have a material adverse effect on SCM s sales in those market segments for which such approvals or certifications are customary or required.

The U.S. federal government represents a significant portion of SCM s revenues. Failing to obtain certain government approvals or certifications could have a material adverse effect in those market segments for which such approvals or certifications are customary or required. As newer versions of existing products, or new products in development, are released, they may require certifications or approvals. In addition, the government may introduce new requirements that some existing products will be required to meet. If SCM fails to obtain any required approvals or certifications for its products, its business will suffer.

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

Government agencies may audit SCM s business as part of their routine audits and investigations of government contracts. As part of an audit, these agencies may review SCM s performance on contracts, cost structures and compliance with applicable laws, regulations and standards. These agencies may also review the adequacy of, and SCM s compliance with, its own internal control systems and policies, including its purchasing, property, estimating, compensation and management information systems. If any of SCM s 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 SCM s competitive position and result in a material adjustment to SCM s financial results or statement of operations. If a government agency audit uncovers improper or illegal activities, SCM 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, SCM s business could suffer serious harm to its reputation if allegations of impropriety were made against it.

While SCM s business has never had a negative audit by a governmental agency, SCM cannot assure you that one will not occur. If SCM 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 SCM, SCM s revenues and prospects would be materially harmed.

SCM s business is subject to extensive government regulation, and any failure to comply with applicable regulations could subject SCM to penalties that may restrict its ability to conduct its business.

SCM s business is affected by and must comply with various government regulations that impact its operating costs, profit margins and its internal organization and operations. Furthermore, SCM s business may be audited to assure compliance with these requirements. Any failure to comply with applicable regulations, rules and approvals could result in the imposition of penalties, the loss of SCM s government contracts or its cancellation of SCM s

24

General Services Administration contract, any of which could adversely affect SCM s business, financial condition and results of operations. Among the most significant regulations affecting SCM s business are the following:

the Federal Acquisition Regulations (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 the right to reimbursement under cost-based government contracts;

the Foreign Corrupt Practices Act; and

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 SCM s customers can do business with SCM, and, in some instances, the regulations impose added costs on SCM s business. Any changes in applicable laws and regulations could restrict SCM s ability to conduct its business. Any failure 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 SCM is unable to continue to obtain government authorization regarding the export of its products, or if current or future export laws limit or otherwise restrict SCM s business, SCM could be prohibited from shipping its products to certain countries, which could cause its business, financial condition and results of operations to suffer.

In SCM s business, it must comply with U.S. and European Union (EU) laws among others, regulating the export of its products. In some cases, explicit authorization from the U.S. or EU government is needed to export its products. The export regimes and the governing policies applicable to SCM s business are subject to changes. SCM cannot be certain that such export authorizations will be available to SCM or for SCM s products in the future. In some cases, SCM 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 SCM or its prime contractor partners cannot obtain required government approvals under applicable regulations, SCM may not be able to sell its products in certain international jurisdictions.

Security breaches in systems SCM 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 SCM 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 SCM s business as a result of negative publicity and could prevent SCM from having further access to such systems or other similarly sensitive areas for other governmental clients.

In SCM s business, as part of its technical support services, SCM 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, SCM s systems may be vulnerable to physical or electronic break-ins and service disruptions that could lead to interruptions, delays or loss of data. If any such compromise of SCM s security were to occur, it could be very expensive to correct, could damage SCM s reputation and could discourage potential customers from using SCM s services. Although SCM has not experienced attempted break-ins, it may experience such attempts in the future. SCM s systems may also be affected by outages, delays and other difficulties. SCM s insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

Table of Contents

Failure to properly manage the implementation of customer projects in SCM s business may result in costs or claims against SCM, and SCM s financial results could be adversely affected.

In SCM s business, deployments of its solutions often involve large-scale projects. The quality of its performance on such projects depends in large part upon its ability to manage relationships with its customers and to effectively manage the implementation of its solutions in such projects and to 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 SCM s reputation or even claims for substantial monetary damages against SCM. In addition, SCM sometimes provides guarantees to customers that it will complete a project by a scheduled date or that SCM s solutions will achieve defined performance standards. If SCM s solutions experience a performance problem, SCM may not be able to recover the additional costs it will incur in its remedial efforts, which could materially impair profit derived from a particular project. Moreover, a portion of SCM 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 SCM miscalculates the amount of resources or time it needs to complete a project for which it has agreed to capped or fixed fees, SCM s financial results could be adversely affected.

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. Some of these dealers also sell competitors products, and if they favor competitors products for any reason, they may fail to market SCM s products as effectively or devote resources necessary to provide effective sales, which would cause SCM s sales to suffer. Distribution arrangements are intended to benefit both SCM and the distributor, and may be long-term 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 SCM 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. 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.

Table of Contents

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

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

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

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

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

difficulties in staffing;

currency fluctuations;

potentially adverse tax consequences;

unexpected changes in regulatory requirements;

tariffs and other trade barriers;

export controls;

political and economic instability;

lack of control over the manufacturing process and ultimately over the quality of SCM s products;

late delivery of SCM s products, whether because of limited access to product components, transportation delays and interruptions, difficulties in staffing, or disruptions such as natural disasters;

capacity limitations of SCM s manufacturers, particularly in the context of new large contracts for its products, whether because its manufacturers lack the required capacity or are unwilling to produce the quantities SCM desires; and

obsolescence of SCM s hardware products at the end of the manufacturing cycle.

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

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

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

SCM s markets are highly competitive.

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

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

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

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

Table of Contents

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.

SCM may choose 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. With the exception of SCM s retail CHIPDRIVE products, 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.

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 then outstanding shares of SCM common stock. As of November 9, 2009, the record date for SCM s special meeting, approximately 23% of the outstanding shares of SCM common stock 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 business combination 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 the then outstanding shares of SCM common stock, 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 common stock on the NASDAQ Stock Market. Either of these events would divert 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 common stock.

29

One of SCM s directors is a partner in the current largest stockholder of SCM and therefore has significant influence over the outcome of corporate actions requiring board and stockholder approval; however, the stockholder s priorities for SCM s business may be different from SCM s or its other stockholders.

As of November 9, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of November 9, 2009, Lincoln Vale also beneficially owned approximately 9.8% of the outstanding bearer shares in Bluehill ID. Upon the closing of the Offer it is anticipated that Lincoln Vale will beneficially own approximately 7.8% of the outstanding shares of SCM common stock. Dr. Hans Liebler, one of SCM s directors, is a partner of Lincoln Vale and may be deemed to beneficially own, either directly or indirectly through limited partnerships, the shares beneficially owned by Lincoln Vale. Accordingly, Dr. Liebler and/or Lincoln Vale could have significant influence over the outcome of corporate actions requiring board and stockholder approval, respectively, including at the SCM special meeting to consider the Offer, 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 stockholders. As a substantial holder of both SCM and Bluehill ID, Lincoln Vale may have objectives and interests that are different than those of SCM s other stockholders.

Bluehill ID is a significant stockholder of SCM, and its priorities as a stockholder of SCM may be different from SCM s other stockholders.

As of November 9, 2009, Bluehill ID beneficially owned and had the right to vote 1,201,004 shares of SCM common stock, and Ayman Ashour, Bluehill ID s CEO and President of its board of directors, beneficially owned and had the right to vote an additional 104,000 shares; Bluehill ID and Mr. Ashour, collectively, beneficially own approximately 5.2% of the outstanding shares of SCM common stock. Accordingly, as a party to the business combination, Bluehill ID not only has a significant interest in the outcome of the SCM special meeting of its stockholders to consider the proposal to approve the Offer and, specifically, the issuance of the shares of SCM common stock in connection with the Offer, it can also influence the outcome of the proposals being considered at the SCM special meeting. The board of directors of Bluehill ID, including Messrs. Ashour and Wenzel and Dr. Boersch, will have the power to determine how the shares of SCM common stock owned by Bluehill ID will be voted at the SCM special meeting of its stockholders. Bluehill ID may have objectives and interests that are different than those of SCM s other stockholders.

In addition, immediately after the closing of the Offer, it is anticipated that Bluehill ID s largest shareholder, Mountain Partners AG, together with its affiliates and certain related parties, including BH Capital Management AG, Daniel S. Wenzel and Dr. Cornelius Boersch, will directly or indirectly beneficially own approximately 25.2% of the outstanding shares of SCM common stock; and Ayman S. Ashour, Bluehill ID s Chief Executive Officer and President of its board of directors, will directly or indirectly beneficially own, including through BH Capital Management AG, approximately 10.8% of the outstanding shares of SCM common stock. Mr. Wenzel and Dr. Boersch, who currently serve as directors of Bluehill ID and Mountain Partners AG, and Mr. Ashour are expected to be appointed to SCM s board of directors following the closing of the Offer. Accordingly, Mr. Ashour, Mountain Partners AG, Mr. Wenzel and Dr. Cornelius Boersch will have significant influence over the outcome of corporate actions requiring board and stockholder approval.

Shares of SCM common stock beneficially owned by Lincoln Vale and Bluehill ID will count toward whether a quorum is achieved.

To achieve a quorum at the SCM special stockholder meeting requires at least one-third of all shares of SCM s stock entitled to vote be present in person or by proxy at the SCM special meeting. If the shares beneficially owned by each of Lincoln Vale and Bluehill ID (including Mr. Ashour s interests) are present in person or by proxy at the SCM special meeting, they will contribute approximately 11.3% toward the 331/3% of shares of SCM common stock required to achieve a quorum.

Table of Contents

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 U.S. 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.

Any failure to effectively manage SCM s operations globally could have a material adverse effect on SCM s business and operating results.

Fluctuations in the valuation of foreign currencies could 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 U.S. 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.

Table of Contents

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 logical access identification and transaction 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 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 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 stockholders could lose confidence in SCM and/or its reported financial results, which may cause a negative effect on the trading price of the SCM 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.

Table of Contents

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, SCM s 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 the SCM common stock outstanding. 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 common stock.

Risks Relating to Shares of SCM Common Stock

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, particularly 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.

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 common stock is listed both on the NASDAQ Stock Market and the regulated market (Prime Standard) of the Frankfurt Stock Exchange and it typically experiences the majority of its trading on the regulated market (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 U.S. 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.

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 SCM common stock could have an adverse effect on the 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 60,000,000 shares of SCM common stock. As of November 9, 2009, 25,134,985 shares of SCM 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 3.5 million shares of SCM common stock may be granted. As of November 9, 2009, an aggregate of approximately 4.8 million shares of SCM common stock were reserved for future issuance under all of SCM s stock option plans, of which 2.3 million shares were subject to outstanding options. SCM may issue additional shares of SCM common stock or other securities that are convertible into or exercisable for shares of SCM 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 the SCM common stock. Finally, as of November 9, 2009, warrants to purchase approximately 4,900,807 shares of SCM common stock were outstanding.

The issuance of additional shares of the SCM common stock or preferred stock or other securities, or the perception that such issuances could occur, may create downward pressure on the trading price of SCM common stock. In addition, the lock-up placed on the shares of SCM common stock issued to former Hirsch shareholders in connection with the merger of SCM and Hirsch which have restricted their transfer or sale will be released in its entirety on January 30, 2010, which could add additional downward pressure on the trading price of SCM common stock.

Other Risks Relating to Bluehill ID s Business

Bluehill ID s limited operating history makes it difficult for Bluehill ID to accurately forecast revenues and appropriately plan its expenses.

Bluehill ID was incorporated on March 26, 2007 in Switzerland and therefore has a limited operating history. As a result, it is difficult for Bluehill ID to accurately forecast its revenues and plan its operating expenses. Significant historical financial data for Bluehill ID is not available, and it is in no way certain that the planned growth of Bluehill ID can be actually realized. There can be no assurance that Bluehill ID will achieve material revenue and profitable operations.

Table of Contents

Bluehill ID may be unsuccessful in managing its growth and retaining suitable management resources.

The planned growth of Bluehill ID depends on whether Bluehill ID can rely in the future, if necessary, on a sufficiently large number of people for the operating management of the Bluehill ID Group Companies. It is critical to the success of the Bluehill ID business model to have available qualified internal or external personnel with practical relevant industry, as well as management experience. It cannot be guaranteed that suitable management resources will always be available to run the Bluehill ID Group Companies, which could adversely affect Bluehill ID s business, financial condition and results of operations.

Information systems which provide valuable information about the Bluehill ID Group Companies may fail or not be operated accurately.

In order for a Bluehill ID Group Company to succeed, a meaningful controlling system must be implemented, which provides management with the decisive information for the improvement of the costs and earnings situation of the investment. Should the management not succeed in installing such systems, the investment in the Bluehill ID Group Company may be adversely affected. An information system at Bluehill ID is critical in order to control its investments and to inform the management and the board of directors at an early stage about negative developments in the Bluehill ID Group Companies. Although Bluehill ID will have such an information system available, it may fail or not be operated correctly by the persons responsible. Bluehill ID may be informed incorrectly, incompletely or on a delayed basis about developments and events at Bluehill ID Group Companies. As a result, possible required counter-measures may not be taken or may only be taken after a delay, such that the success of Bluehill ID s development or even the value of Bluehill ID s investment could decline, which could harm Bluehill ID s business, financial condition and results of operations.

A significant portion of Bluehill ID s sales come from a small number of customers, and if Bluehill ID is unable to diversify its customer base or manage the variability in the timing of orders, its operating results could be negatively impacted.

Bluehill ID s products are generally targeted at customers in many industries and applications. These include companies utilizing cards and readers in loyalty programs, ticketing, stadiums, skiing, corporate identification, physical and logical access control, passport control, and other applications. Sales to a relatively small number of customers have accounted for a significant percentage of the individual Bluehill ID Group Companies revenues during its limited operating history. Sales to Bluehill ID s top ten customers accounted for approximately 52% of revenue in fiscal year 2008, with operations starting on June 30, 2008. In 2008, the top three customers accounted for approximately 19%, 9% and 4% of revenues.

In fiscal year 2009, Bluehill ID expects that, with the completed acquisition of six more companies, the diversity of the customer base of its new acquisitions will substantially offset the dependence it had on a limited number of customers in certain of its other business areas. However, variations in the timing or patterns of customer orders could also increase Bluehill ID 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 Bluehill ID s business and operating results.

Bluehill ID may be unsuccessful in expanding its operations.

Bluehill ID s planned expansion through the acquisition of companies may make it necessary to change the organizational, personnel and technical structures of the company. Measures may have to be taken in the areas of accounting and controlling, which ensure an improvement of the organizational and information structures and take into consideration the requirements for development. In particular, an information system must be implemented which eventually must be expanded for a growing number of investments. Such measures will be costly. Should Bluehill ID not be able to implement successfully or only partially the required measures, this could adversely affect Bluehill ID s business, financial condition and results of operations.

Table of Contents

Individual Bluehill ID Group Companies may suffer losses as a result of their inability to retain qualified personnel or other unforeseen reasons.

In the event that specific company risks occur, including technological developments, which are of importance for a Bluehill ID Group Company, or if other negative events take place with respect to the value of the investment, Bluehill ID may not be able to achieve the planned profit on the sale and might have to suffer a partial loss or a total loss. A reduction of the value, the realization of losses in value or the complete loss of investments would adversely affect Bluehill ID s business, financial condition and results of operations. In the case of companies in unstable situations, the existing uncertainty can lead to a higher level of personnel fluctuations in the investments. The loss of qualified personnel could have a substantial negative influence on the business activities of the investment, as well as its reorganization and restructuring potential. The ability to retain and motivate qualified personnel and gain new and well trained personnel is critical to the success of the investments and thus also for Bluehill ID s business, financial condition and results of operations.

Bluehill ID s board of directors and members of management are critical to its business, and such individuals may not remain with Bluehill ID in the future.

A key component for the future success of Bluehill ID is the many years of experience of the members of the board of directors and management with regard to the acquisition, development and sale of companies. The loss of any one or more of these individuals could have negative effects on the business activity of Bluehill ID and on its further development. The search for and selection of suitable successors could be costly and impede the growth of the company. There can be no assurance that these individuals will remain in their capacity with Bluehill ID, nor that they could potentially compete with Bluehill ID in related businesses or ventures in the future.

Certain of Bluehill ID s officers and directors are currently and may in the future become affiliated with entities engaged in the identification industry and accordingly, may have conflicts of interest.

Certain of Bluehill ID s officers and directors have extensive experience in the identification and security industry and either serve as directors of certain companies in the industry or hold shares, directly or indirectly, in such companies. In addition, Bluehill ID s largest shareholder, Mountain Partners AG, has investments in a number of companies in Germany and Switzerland in this industry. Two of Bluehill ID s directors, Mr. Daniel Wenzel and Dr. Cornelius Boersch, are directors of Mountain Partners AG, and Dr. Boersch is the principal shareholder.

There can be no assurance that certain corporate opportunities suitable for Bluehill ID are not otherwise made available to Bluehill ID competitors. If Bluehill ID were to lose a significant acquisition opportunity as a result, it could harm Bluehill ID s prospects and market position.

Bluehill ID may not be successful in hiring highly qualified external managers.

The growth and business success of Bluehill ID depends to a large extent on the hiring of highly qualified managers with management capability and business acumen. Should Bluehill ID not succeed in identifying and hiring a sufficient number of external managers, this could adversely affect Bluehill ID s business, financial condition and results of operations. Moreover, Bluehill ID may incorrectly estimate the abilities of external managers and the external managers that Bluehill ID hires may not be successful.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This proxy 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 or Bluehill ID 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, anticipates, believes, estimates, should, could, would, strategy, plan, continue, pursue, or the negative of these words or othe 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 Offer, SCM s ability to solicit a sufficient number of proxies to approve the Offer and, specifically, the issuance of the shares in connection with the Offer, and other matters related to the consummation of the Offer.

For a discussion of risks associated with the ability of SCM and Bluehill ID to complete the Offer, with the business combination, and with the businesses of SCM, Bluehill ID and the combined companies after the business combination, see the section entitled Risk Factors, beginning on page 9.

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 Securities and Exchange Commission by SCM. See the section entitled Where You Can Find More Information, beginning on page 191.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, the results of SCM, Bluehill ID and the combined companies could differ materially from the forward-looking statements. All forward-looking statements in this proxy statement and prospectus are current only as of the date on which the statements were made. SCM and Bluehill ID 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.

Table of Contents

SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA

The following tables present selected historical financial data for SCM, Bluehill ID and Bluehill ID s predecessor companies, and comparative historical and unaudited pro forma per share data for SCM, Bluehill ID and Bluehill ID s predecessor companies.

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 proxy 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, 2004, 2005, 2006, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2004, 2005, 2006, 2007 and 2008 were derived from SCM s audited consolidated financial statements included in this proxy statement and prospectus. The consolidated statement of operations data for the three- and six-month periods ended June 30, 2009 and the consolidated balance sheet data as of June 30, 2009 were derived from SCM s unaudited consolidated financial statements included in this proxy 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 proxy statement and prospectus and includes all adjustments, consisting only of normal recurring adjustments, which 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.

Table of Contents

SCM MICROSYSTEMS, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009	2008	2007	2006	2005	2004
				Years Ended December 31,			
		(In thousands of U.S. dollars, except per share data)					
	(Unaudited)						
Consolidated Statement of Operations Data:							
Net revenue	$ 10,961	$ 16,116	$ 28,362	$ 30,435	$ 33,613	$ 27,936	$ 30,030
Cost of revenue	5,390	8,432	15,817	17,781	21,756	17,106	17,724
Gross profit	5,571	7,684	12,545	12,654	11,857	10,830	12,306
Operating expenses:							
Research and development	1,489	2,258	3,902	3,123	3,767	4,081	4,807
Selling and marketing	3,739	5,983	9,620	6,603	7,498	7,040	8,560
General and administrative	2,199	4,646	8,075	7,132	7,548	9,198	9,021
Amortization of intangibles				272	666	673	1,078
Impairment of goodwill and intangibles							388
Restructuring and other charges (credits)				(4)	1,120	319	607
Gain on sale of assets		(249)	(1,455)				
Total operating expenses	7,427	12,678	20,142	17,126	20,599	21,311	24,461
Loss from operations	(1,856)	(4,994)	(7,597)	(4,472)	(8,742)	(10,481)	(12,155)
Loss from investments	(281)	(570)	(256)				
Interest and other income (expense)	(125)	(98)	757	1,639	1,350	745	806
Foreign currency gains (losses) and other income (expense)	(87)	165	(2,638)	(346)	(225)	1,731	(1,675)
Loss from continuing operations before income taxes	(2,349)	(5,497)	(9,734)	(3,179)	(7,617)	(8,005)	(13,024)
	1,739	1,740	(752)	(113)	(73)	(150)	173

Benefit (provision) for income taxes							
Loss from continuing operations	(610)	(3,757)	(10,486)	(3,292)	(7,690)	(8,155)	(12,851)
Gain (loss) from discontinued operations, net of income taxes	84	151	(213)	(215)	3,508	(2,109)	(6,242)
Gain (loss) on sale of discontinued operations, net of income taxes	38	75	589	1,586	5,224	(2,171)	430
Net income (loss)	$ (488)	$ (3,531)	$ (10,110)	$ (1,921)	$ 1,042	$ (12,435)	$ (18,663)
Basic and diluted loss per share from continuing operations	$ (0.03)	$ (0.20)	$ (0.66)	$ (0.21)	$ (0.49)	$ (0.53)	$ (0.83)
Basic and diluted income (loss) per share from discontinued operations	$ 0.01	$ 0.01	$ 0.02	$ 0.09	$ 0.56	$ (0.27)	$ (0.38)
Basic and diluted net income (loss) per share	$ (0.02)	$ (0.19)	$ (0.64)	$ (0.12)	$ 0.07	$ (0.80)	$ (1.21)
Shares used to compute basic and diluted income (loss) per share	22,039	18,891	15,743	15,725	15,638	15,532	15,402

Table of Contents

	June 30, 2009	December 31, 2008	2007	2006	2005	2004
		(In thousands of U.S. dollars)				
	(Unaudited)					
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short-term investments *(unaudited)*	$ 5,309	$ 20,550	$ 32,444	$ 36,902	$ 32,440	$ 46,153
Working capital(1) *(unaudited)*	11,460	23,931	34,027	31,967	27,371	39,161
Total assets	74,213	41,138	48,564	51,355	52,734	73,307
Total stockholders equity	48,154	28,126	37,039	35,318	32,617	46,829

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

40

Table of Contents

Selected Historical Financial Data of Bluehill ID and its Predecessor Companies

The selected financial data set forth below for Bluehill ID and its predecessor companies is derived in part from and should be read in conjunction with Bluehill ID s financial statements, the predecessor companies financial statements, the related notes and the section of this proxy statement and prospectus entitled Bluehill ID s Management s Discussion and Analysis of Financial Conditions and Results of Operation. The statement of income data for the year ended December 31, 2008 and the balance sheet data as of December 31, 2008 were derived from Bluehill ID s unaudited consolidated financial statements. The statement of income data of Bluehill ID s predecessor companies for the six months period ended to June 30, 2008 were derived from Bluehill ID s predecessor companies unaudited consolidated financial statements included in this proxy statement and prospectus. The consolidated statement of operations data for the six-month period ended June 30, 2009 and the consolidated balance sheet data as of June 30, 2009 were derived from Bluehill ID s unaudited consolidated financial statements included in this proxy statement and prospectus. The financial statements of Bluehill ID and its predecessor companies have been reconciled to U.S. GAAP and are translated to U.S. dollars. The historical financial statements of Bluehill ID and its predecessor companies have been presented in IFRS accounting and in Euros.

BLUEHILL ID AG AND PREDECESSOR COMPANIES
SELECTED FINANCIAL DATA

	Bluehill ID AG Six Months Ended June 30, 2009	Bluehill ID AG Year Ended December 31, 2008	Predecessor companies of Bluehill ID AG Six Months Ended June 30, 2008
	(In thousands of U.S. dollars)		
	(Unaudited)	(Unaudited)	(Unaudited)
Consolidated Statement of Operations Data:			
Net revenues	$ 9,288	$ 8,764	$ 4,665
Cost of revenues	6,783	5,746	4,012
Gross profit	2,505	3,018	653
Operating expenses:			
Research and development	470	265	75
Selling, General and administrative	9,423	5,174	1,211
Depreciation and amortization	3	15	10
Total operating expenses	9,896	5,454	1,296
Income (loss) from operations	(7,391)	(2,436)	(643)
Other income (loss)	(29)	3,149	(47)
Income (loss) before provision for income taxes	(7,420)	713	(690)

Benefit (provision) for income taxes	(163)	5	(123)
Net income (loss)	$ (7,583)	$ 718	$ (813)

	June 30, 2009	December 31, 2008
	(In thousands of U.S. dollars)	
	(Unaudited)	(Unaudited)
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 4,487	$ 10,753
Working capital(1)	(24)	(1,122)
Total assets	32,747	33,602
Total stockholders equity	21,342	24,334

(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 table sets forth certain historical, and pro forma combined financial information. The following tables set forth the SCM historical net income (loss) per share for the six months ended June 30, 2009, on an unaudited basis, and year ended December 31, 2008, and the historical book value per share as of June 30, 2009 and December 31, 2008, on an unaudited basis, and net income (loss) per share for SCM on an unaudited pro forma combined basis, for the six months ended June 30, 2009 and year ended December 31, 2008, and unaudited pro forma book value per share as of June 30, 2009. The following tables also set forth for Bluehill ID and it s predecessor companies historical net income (loss) per share for the six months ended June 30, 2009 and year ended December 31, 2008, on an unaudited basis, and the historical book value per share as of June 30, 2009 and December 31, 2008, on an unaudited basis. The information presented is based on the US GAAP financial statements of Bluehill ID and its predecessor companies.

The unaudited 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 proxy statement and prospectus. This information is based on the historical balance sheets and related historical statements of operations of SCM, Bluehill ID and its predecessor companies included in this proxy 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 business combination had been completed as of the dates indicated, and should not be taken as representative of future consolidated per share data of SCM. The historical data of SCM, Bluehill ID and Bluehill ID s predecessor companies historical data were derived from and should be read together with the consolidated financial statements and accompanying notes included elsewhere in this proxy statement and prospectus.

	Six Months Ended June 30, 2009 (Unaudited)	Year Ended December 31, 2008
SCM s Historical Data:		
Net income (loss) per share(1):		
Basic and diluted loss per share from continuing operations	$ (0.20)	$ (0.66)
Basic and diluted income per share from discontinued operations	$ 0.01	$ 0.02
Basic and diluted net loss per share	$ (0.19)	$ (0.64)
As of June 30, 2009:		
Consolidated book value per share(2)	$ 1.92	
As of December 31, 2008:		
Consolidated book value per share *(unaudited)* (2)		$ 1.79

	Six Months Ended	Year Ended

	June 30, 2009 (Unaudited)	December 31, 2008 (Unaudited)
Bluehill ID and Predecessor Companies Historical Data:		
Net income (loss) per share(3):		
Basic and diluted net income (loss) per share	$ (0.28)	$ 0.04
As of June 30, 2009:		
Book value per share(4)	$ 0.77	
As of December 31, 2008:		
Book value per share(4)		$ 0.91

42

Table of Contents

		Six Months Ended June 30, 2009 (Unaudited)		Year Ended December 31, 2008 (Unaudited)
Pro Forma Combined Data:				
Pro forma net income (loss) per share(5):				
Basic and diluted loss per share from continuing operations	$	(0.34)	$	(0.28)
Basic and diluted income per share from discontinued operations	$	0.01	$	0.01
Basic and diluted net loss per share	$	(0.33)	$	(0.27)
As of June 30, 2009:				
Pro forma book value per share(6)	$	2.10		

(1) Historical net income (loss) per share was derived from the SCM s Quarterly Report on Form 10-Q for the period ended June 30, 2009 and Annual Report on Form 10-K for the fiscal year ended December 31, 2008 both as filed with the SEC.

(2) Consolidated book value per share as of June 30, 2009 and December 31, 2008 are calculated by dividing total shareholders equity by the common shares outstanding as of the respective dates.

(3) Net income (loss) per share was calculated by dividing net income by the diluted weighted average common shares outstanding.

(4) Book value per share is computed by dividing total shareholders equity by the common shares outstanding as of the respective date.

(5) 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, 2008.

(6) Pro forma book value per share is computed by dividing pro forma total shareholders equity by the pro forma common shares outstanding as if the transaction had occurred on June 30, 2009.

Table of Contents

MARKET PRICE AND DIVIDEND INFORMATION

SCM common stock is traded on the NASDAQ Stock Market s Global Market under the symbol SCMM and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange under the symbol SMY. Bearer shares in Bluehill ID are traded on the over-the-counter Open Market at the Frankfurt Stock Exchange under the symbol BUQ. Following the consummation of the Offer, SCM common stock, including the shares issued in connection with the Offer, are expected to continue to trade on the NASDAQ Stock Market under the symbol SCMM and on the regulated market (Prime Standard) of the Frankfurt Stock Exchange under the symbol SMY. The following table sets forth the respective high and low closing prices of SCM common stock and bearer shares in Bluehill ID for the periods indicated. The market prices set forth below may not be indicative of the future value of the SCM common stock.

	SCM				Bluehill ID	
	NASDAQ Stock Market s Global Market		Regulated Market of the Frankfurt Stock Exchange (Quoted in Euros)		Over-the-Counter Market at the Frankfurt Stock Exchange (Quoted in Euros)	
	High	Low	High	Low	High	Low
			(Unaudited)			
Fiscal Year 2009:						
Fourth Quarter (through November 9, 2009)	$ 3.00	$ 2.80	2.05	1.70	0.95	0.80
Third Quarter	$ 3.00	$ 2.04	1.98	1.47	1.02	0.73
Second Quarter	$ 3.20	$ 2.13	2.01	1.50	1.20	0.90
First Quarter	$ 2.88	$ 1.97	2.08	1.48	1.44	1.15
Fiscal Year 2008:						
Fourth Quarter	$ 2.34	$ 1.27	1.62	1.02	1.62	1.21
Third Quarter	$ 3.17	$ 2.08	2.03	1.52	1.40	1.20
Second Quarter	$ 3.19	$ 2.71	1.99	1.68	1.20	0.60
First Quarter	$ 3.78	$ 2.59	2.56	1.71	0.70	0.56
Fiscal Year 2007:						
Fourth Quarter	$ 3.74	$ 2.85	2.56	2.05	0.68**	0.60**
Third Quarter	$ 3.32	$ 2.63	2.28	1.95	*	*
Second Quarter	$ 4.42	$ 2.90	3.25	2.23	*	*
First Quarter	$ 4.34	$ 2.97	3.35	2.30	*	*

* No data for prior quarters, as trading commenced on the Open Market at the Frankfurt Stock Exchange on December 21, 2007.

** Data for period from December 21, 2007 through December 31, 2007.

SCM Microsystems

On September 18, 2009, the last full trading day prior to the public announcement of entry into the Business Combination Agreement, the closing price per share of SCM common stock as reported on the NASDAQ Stock Market was $2.66 per share. On November 9, 2009, the last practicable date before the filing of this proxy statement and prospectus, the closing price per share of SCM common stock as reported on the NASDAQ Stock Market was $2.89. Because the market price of SCM common stock is subject to fluctuation, the market value of the shares of SCM common stock that holders of bearer shares in Bluehill ID will receive pursuant to the Offer may increase or decrease. As of November 9, 2009, SCM had approximately 352 stockholders of record. Not represented in this figure are individual stockholders in Germany whose custodian banks do not release stockholder information about their SCM holdings.

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.

Bluehill ID AG

On September 18, 2009, the last full trading day prior to the public announcement of entry into the Business Combination Agreement, the closing price per bearer share in Bluehill ID as reported on the Open Market of the Frankfurt Stock Exchange was 0.74 per share. On November 9, 2009, the last practicable date before the filing of this proxy statement and prospectus, the closing price per bearer share in Bluehill ID as reported on the Open Market at the Frankfurt Stock Exchange was 0.87. Bluehill ID s stock is held in bearer form and trades in book-entry only form on the over-the-counter Open Market of the Frankfurt Stock Exchange. As a result, Bluehill ID is not able accurately to assess the number of holders of its stock as of any date.

Bluehill ID has never declared or paid cash dividends on its capital stock. Bluehill ID 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 are no Swiss governmental laws, decrees or regulations that restrict the export or import of capital, including any foreign exchange controls, or that affect the remittance of dividends or other payments to non-residents or non-citizens of Switzerland who hold bearer shares in Bluehill ID.

Comparative Per Share Market Price Data

The following table sets forth the Xetra high, low and closing prices for SCM common stock and bearer shares in Bluehill ID as reported on the Deutsche Boerse AG website and Wertpapier-Informationssystem of Boersen-Zeitung on September 18, 2009, the last trading day before SCM and Bluehill ID announced the Offer, and November 9, 2009. This information is based on the Xetra market prices because both securities are traded on that exchange, and the prices given in Euros are not dependent upon or subject to the application of an exchange rate. The table also includes the value of a bearer share in Bluehill ID on an equivalent price per share basis, as determined by reference to the share exchange ratio to be applied in respect of each bearer share in Bluehill ID tendered in the Offer. These equivalent prices per share reflect the fluctuating value of SCM common stock that Bluehill ID shareholders would receive in exchange for each bearer share in Bluehill ID tendered if the Offer was closed on either of these dates, applying the share exchange ratio of 0.52 shares of SCM common stock in exchange for each bearer share in Bluehill ID tendered.

	SCM Common Stock			Bearer Share in Bluehill ID			Equivalent Value of a Bearer Share in Bluehill ID		
	High	**Low**	**Close**	**High**	**Low**	**Close**	**High**	**Low**	**Close**
September 18, 2009	1.90	1.81	1.88	0.80	0.80	0.80	0.99	0.94	0.98
November 9, 2009	1.79	1.71	1.79	0.87	0.87	0.87	0.93	0.89	0.93

The table above shows only historical comparisons. These comparisons may not provide meaningful information to SCM stockholders in determining whether to approve the Offer and, specifically, the issuance of shares of SCM common stock in connection with the Offer, and, in the case of Bluehill ID shareholders, when considering whether to tender their shares. SCM stockholders and Bluehill ID shareholders are urged to obtain current market quotations for SCM common stock and bearer shares in Bluehill ID and to review carefully the other information contained in this proxy statement and prospectus. See Where You Can Find Additional Information in this proxy statement and prospectus.

Table of Contents

THE OFFER

This section and the section entitled The Business Combination Agreement beginning on page 68 of this proxy statement and prospectus is a summary of the material terms of the Offer and the Business Combination Agreement. Because it is a summary, it may not contain all of the information that is important to you. You should read carefully this entire proxy statement and prospectus, including the Business Combination Agreement, which is attached as Annex A to this proxy statement and prospectus, and the other documents to which SCM has referred.

Background of the Business Combination and Offer

In January 2005, Mr. Robert Schneider, then CEO of SCM, approached Mr. Ayman S. Ashour to explore opportunities for cooperation, based on Mr. Ashour s successful execution of a buy and build strategy for ASSA ABLOY and SCM s desire to explore strategic options with the assistance of external advisors. SCM and Mr. Ashour met periodically over the next several months. In May 2006, SCM entered into an advisory services agreement to engage Mr. Ashour and Newton International Management LLC, a strategy consulting firm of which Mr. Ashour is the Principal, as a consultant to pursue discussions with private equity firms in furtherance of a growth and acquisition strategy for SCM. Over the course of the next several months, SCM, Newton and Mr. Ashour worked closely together to consider strategic options for SCM (including the possible acquisition of Hirsch, which SCM ultimately acquired in April 2009). In late 2006, the parties decided to terminate this effort.

In March 2007, Mr. Ashour and Mountain Partners AG founded Bluehill ID as a company focusing on a buy, build and grow strategy.

In October 2007, Mr. Felix Marx joined SCM as its Chief Executive Officer and launched new initiatives to develop a growth and acquisition strategy for SCM.

On April 9, 2008, Bluehill ID purchased 17,500 shares of SCM common stock on the open market, which represented approximately 0.1% of the then total number of shares of SCM common stock outstanding. Bluehill ID subsequently increased its holdings in SCM, through open market purchases, to 1,201,004 shares, representing approximately 4.8% of the outstanding shares of SCM common stock as of November 9, 2009. Bluehill ID s purchases of SCM common stock were detailed in Securities and Exchange Commission and BaFin filings by Bluehill ID. Apart from Bluehill ID s investment in SCM, there was no business relationship between the two companies or their principals at this time. Mr. Ashour served as a director of Hirsch from 2005 until his resignation in November 2008.

On September 10, 2008, Mr. Marx, Mr. Stephan Rohaly, then Chief Financial Officer of SCM, and Dr. Manfred Mueller, Executive Vice President, Strategic Sales and Business Development of SCM, met at SCM s office in Ismaning, Germany with Mr. Ashour and Mr. Fabien Nestmann, Manager of Business Development and Investor Relations of Bluehill ID, to discuss topics related to Bluehill ID s investment in SCM.

On December 10, 2008, SCM and Hirsch entered into a merger agreement.

On January 17, 2009, Mr. Marx and Mr. Lawrence Midland, President of Hirsch, met with Mr. Ashour in Dubai at a security trade show to discuss possible cooperation in the Middle East region between SCM (which was in the process of merging with Hirsch) and Bluehill ID.

On March 17, 2009, Mr. Marx and Dr. Mueller met with Mr. Ashour and Mr. Nestmann to discuss topics related to Bluehill ID s investment in SCM.

Between March 23, 2009 and mid-April 2009, Mr. Marx and Mr. Ashour met several times to discuss potential business opportunities involving SCM and Bluehill ID, culminating in the execution of a memorandum of understanding on April 16, 2009 regarding the supply of SCM s contact readers and other SCM products to Bluehill ID for subsequent resale, Bluehill ID s supply of electronic document (eDOC) and NFC RFID reader modules to SCM for subsequent resale, and the parties cooperation in the development of NFC technology.

On April 29, 2009, Mr. Marx, Dr. Mueller, Mr. Midland and SCM director Mr. Hans Liebler met with Mr. Ashour and Mr. Daniel Wenzel, a member of the Bluehill ID board of directors, to further discuss potential business opportunities involving SCM and Bluehill ID, including the potential combination of the two companies.

Table of Contents

On April 30, 2009, SCM completed its acquisition of Hirsch.

During the period from May 2009 to July 2009, Mr. Marx and Mr. Ashour and several other representatives of SCM and Bluehill ID met in person or by phone to continue preliminary discussions concerning a potential combination of the two companies.

On July 3, 2009, SCM and Bluehill ID entered into a confidentiality agreement with respect to a potential transaction.

On July 23, 2009 SCM management made a presentation to the SCM board of directors regarding a potential transaction with Bluehill ID. After this presentation, the board of directors of SCM instructed SCM s management to continue to explore a potential transaction with Bluehill ID.

On July 27, 2009, Mr. Marx, Dr. Mueller and Mr. Ashour met by phone to discuss expectations and timelines for a potential transaction between SCM and Bluehill ID.

On July 28, 2009, Dr. Mueller and Mr. Martin Wimmer, Vice President Finance of SCM, and Mr. Ashour, Mr. Nestmann and Mr. Melvin Denton-Thompson, Chief Financial Officer and Chief Operating Officer of Bluehill ID, met in Munich to review Bluehill ID s financial results and discuss preliminary due diligence items related to a potential transaction.

Throughout August 2009, SCM management met with Bluehill ID management at Bluehill ID s Arygon and ACiG facility in Mainz, Germany, Bluehill ID s TagStar facility in Sauerlach, Germany, and Bluehill ID s Multicard facility in Wallisellen, Switzerland to conduct due diligence related to a potential transaction. During this period, Bluehill ID management personnel also visited and conducted due diligence on SCM s operations at SCM s Ismaning, Germany and Santa Ana, California locations.

On August 7, 2009, the SCM board of directors received an update from SCM management on the status of the discussions with Bluehill ID and preliminary due diligence findings. The SCM board of directors discussed the potential transaction and instructed SCM s management to continue to explore the potential transaction.

On August 11, 2009 and August 14, 2009, SCM management met with representatives from Jupiter Capital Services GmbH (Jupiter) in connection with the potential transaction with Bluehill ID, culminating in SCM s engagement of Jupiter to render an opinion evaluating the financial fairness of any proposed transaction on August 21, 2009.

On August 19, 2009, Mr. Marx and Mr. Ashour met in Menlo Park, California to discuss certain items related to the potential transaction.

On August 26, 2009, Dr. Mueller and Mr. Ashour met to review and discuss revenue projections for SCM and Bluehill ID.

On August 28, 2009, SCM engaged Lovells LLP to provide legal advisory services related to the proposed transaction, particularly with regards to legal requirements in Europe.

On September 9, 2009, Bluehill ID engaged McDermott Will & Emery LLP to provide U.S. legal advisory services related to the proposed transaction, and relied throughout the period upon its regular German and Swiss counsel (respectively, AFR Aigner Fischer Radlmayr and Peller Rechstanwalte) for local law matters.

On September 9, 2009, Mr. Marx and Mr. Ashour met in Zurich to discuss open issues regarding the proposed transaction, including the terms of the Business Combination Agreement and related transactions.

On September 10, 2009, SCM engaged Gibson, Dunn & Crutcher LLP to provide legal advisory services related to the proposed transaction, particularly with regards to legal requirements in the U.S., including the preparation and filing of the Registration Statement on Form S-4 related to the transaction.

During September 2009, representatives of SCM and Bluehill ID, together with their respective legal counsel, participated in several conference calls to finalize the terms of the potential transaction and the Business Combination Agreement.

Table of Contents

On September 16, 2009, the SCM board of directors held a special meeting at which the proposed transaction with Bluehill ID 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 business combination and representatives of Jupiter made a financial presentation to the SCM board of directors and rendered Jupiter s oral opinion, subsequently confirmed in writing, to the effect that, as of September 16, 2009, the date of the opinion, and based upon and subject to the various considerations and limitations set forth in such opinion, the transaction 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 Business Combination Agreement, and other legal issues associated with the proposed business combination.

On September 20, 2009, the SCM board of directors unanimously approved the Business Combination Agreement by written consent and determined that the business combination and the terms of the Business Combination Agreement were advisable and in the best interests of the SCM stockholders.

On September 20, 2009, the Bluehill ID board of directors unanimously approved a resolution requesting the conclusion of the Business Combination Agreement and empowering Mr. Ashour with the closing and execution thereof.

On September 20, 2009, counsel for each of SCM and Bluehill ID finalized the Business Combination Agreement and related documents, and the Business Combination Agreement was executed by the parties.

On September 21, 2009, SCM and Bluehill ID publicly announced the proposed combination prior to the opening of trading on both the NASDAQ Stock Market and the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

On October 20, 2009, SCM and Bluehill ID made certain non-material amendments to the Business Combination Agreement.

SCM s Reasons for the Business Combination and Offer; Recommendation of the SCM Board of Directors

The SCM board of directors believes that the terms of the Business Combination Agreement and the transactions contemplated thereby, including the Offer, are advisable, and in the best interests of, SCM and its stockholders, and has unanimously approved the Business Combination Agreement and the Offer. The SCM board of directors has concluded that the business combination with Bluehill ID presents a compelling strategic opportunity for SCM to accelerate the development of a leadership position in contactless markets and technology and to further diversify its business geographically. The SCM board of directors recommends that SCM stockholders vote in favor of the SCM proposals described in this proxy statement and prospectus.

In reaching its decision to approve the business combination, including the Offer, 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 business combination SCM will be better positioned to pursue and implement a strategy focused on the development of a leading position in the rapidly emerging market for contactless solutions and technologies;

- the fact that both SCM and Bluehill ID are focused on access control, identity management and RFID technologies and markets, which are important applications that leverage contactless technologies, and that each company operates under complementary brands within the RFID and smart card value chains;

the fact that Bluehill ID has a diverse customer base in Latin America, Asia and Europe that complements SCM s business in those regions, and the belief that combining the two companies would further diversify and balance SCM s business geographically;

the belief that Bluehill ID s position in the RFID transponder technology market will strengthen SCM s e-passport and national ID business and help SCM expand its presence in related growing vertical markets;

the belief that the experience of Bluehill ID s management team in successfully executing a buy, build and grow strategy will further support SCM s ability to accelerate growth through acquisition;

the expected synergies that will result from the business combination as a result of leveraging the existing businesses of both companies to reach more customers and penetrate new segments of the Security and Identity Solutions market;

the results of SCM s due diligence review of Bluehill ID s business, finances and operations and its evaluation of Bluehill ID s management, competitive positions and prospects;

the opinion of SCM s financial advisor that, as of September 16, 2009, and based upon and subject to the considerations described in its written opinion, the consideration to be paid by SCM to the shareholders of Bluehill ID pursuant to the Business Combination 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 business combination will be satisfied or waived;

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

the belief that the business combination would increase the overall level of resources available for sales, marketing, engineering and production across target markets and regions and allow SCM to leverage Bluehill ID s well-respected brands;

the fact that Bluehill ID owns 1,201,004, or 4.8%, of the outstanding shares of SCM common stock and such shares are expected to remain in Bluehill ID immediately after the closing of the Offer; and

the belief that the business combination 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 business combination, the SCM board of directors also identified and considered a variety of risks relating to the business combination, including the following:

the fact that SCM may be assuming the obligations pursuant to the Bluehill ID Option Plans, the Call Option Agreement, and the Earn Out Agreements, which if not converted into the right to acquire or receive shares of SCM common stock could entitle the counter-parties to continue to acquire or receive bearer shares in Bluehill ID, which would lead to a dilution of SCM with regard to its interests in Bluehill ID;

the fact that immediately after the closing of the Offer, due to their anticipated direct and indirect beneficial ownership of the outstanding shares of SCM common stock, Mr. Ashour and Mountain Partners AG, together with Mr. Wenzel and Dr. Cornelius Boersch, will have significant influence over the outcome of corporate actions requiring board and stockholder approval;

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

the expected significant length of time between signing the Business Combination Agreement and completing the business combination or terminating the Business Combination Agreement, and the restrictions on the conduct of SCM s business in the intervening period;

the fact that the representations and warranties of Bluehill ID contained in the Business Combination Agreement do not survive the closing of the Offer, and the absence of any indemnification obligations of Bluehill ID to SCM in the Business Combination Agreement;

the fact that no agreement was entered into between SCM and the directors, executive officers, or principal shareholders of Bluehill ID obligating such parties to tender their bearer shares in Bluehill ID in the Offer, and the fact that no stockholders agreement was entered into between SCM and the principal shareholders of Bluehill ID with respect to future voting on SCM matters, including SCM s board composition;

the circumstances under which SCM may become liable to pay a termination fee to Bluehill ID and the effect on any competing transaction;

Table of Contents

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

the possibility that the business combination 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 proxy statement and prospectus entitled Risk Factors.

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 Business Combination Agreement and the transactions contemplated thereby, including the Offer, were in the best interests of SCM and the SCM stockholders, and that SCM should enter into the Business Combination Agreement.

SCM Financial Projections

SCM provided financial projections for its business to Jupiter, its financial advisor, in August 2009 for use in connection with its fairness analysis, summarized in the section of this proxy statement and prospectus entitled The Offer Opinion of Jupiter to the Board of Directors of SCM. Please note, however, that even though such projections were provided to Jupiter in rendering its fairness opinion, Jupiter assumed that the value of SCM common stock would be equal to the market price for such shares, as further described in the section entitled The Offer Opinion of Jupiter to the Board of Directors of SCM.

Table of Contents

Income Statement Projections of SCM
(unaudited)

	Year End Dec. 31			
	2009	2010	2011	2012
	In thousands of U.S. dollars			
Sales	$ 48,052	$ 68,100	$ 74,930	$ 82,423
% growth	*69%*	*42%*	*10%*	*10%*
Cost of sales	(23,358)	(33,075)	(36,311)	(39,975)
% margin	*(49)%*	*(49)%*	*(48)%*	*(49)%*
Gross margin	24,694	35,025	38,619	42,448
% margin	*51%*	*51%*	*52%*	*52%*
Research & development	(4,448)	(4,690)	(4,846)	
Selling costs	(12,631)	(15,649)	(16,197)	
G&A costs	(10,184)	(11,344)	(11,733)	
Restructuring and other charges (credits)	(2,075)	0	0	
Gain on sale of assets	1,417	0	0	
Amortization of intangibles	0	0	0	
Depreciation/Amortisation Hirsch	(527)	(861)	(861)	
Gain/loss from operations (EBIT)	(3,754)	2,480	4,981	7,830
% margin	*(8)%*	*4%*	*7%*	*10%*
Depreciation & Amortization total group	727	1,168	1,168	1,168
% of sales	*2%*	*2%*	*2%*	*1%*
EBITDA	(3,027)	3,648	6,150	8,999
% margin	*(6)%*	*5%*	*8%*	
Gain from/loss on equity investments	(922)	866	4,269	4,269
Interest income (expenses)	(445)	(687)	(467)	(350)
Foreign currency losses and other income (expense), net	165	0	0	0
Profit before taxes	(4,956)	2,659	8,783	11,749
% margin	*(10)%*	*4%*	*12%*	*14%*
Income tax (expenses)/income	1,063	(600)	(3,513)	(4,300)
% margin	*(21)%*	*(23)%*	*(40)%*	*(37)%*
Gain (loss) from discont d operations, net of income taxes	125	0	0	0
Gain on sale of discont d operations, net of income taxes	0	0	0	0
Net income (loss)	(3,767)	2,059	5,270	7,450

% margin	*(8)%*	*3%*	*7%*	*9%*

SCM s management provided the above income statement projections for the years 2009 through 2011. The above income statement projections for 2012 were the result of Jupiter s formation of certain assumptions about SCM s business with respect to such period, which SCM management reviewed and confirmed. For 2012, Jupiter and SCM only projected certain key line items.

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 2010;

the security sector would outperform the overall economy;

Table of Contents

- 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;
- 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 to revenue 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 proxy statement and prospectus only because this information was made available to Jupiter for use in its fairness analysis provided to the SCM board of directors. The SCM financial projections were not prepared with a view to public disclosure or compliance with the published guidelines of the Securities and Exchange Commission 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. 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.

Jupiter reviewed and relied upon the SCM income statement projections in rending its opinion of fairness, as summarized in the section of this proxy statement and prospectus entitled The Offer Opinion of Jupiter to the Board of Directors of SCM and attached hereto as *Annex B*. You are urged to read carefully these SCM financial projections together with the SCM financial statements, the Risk Factors, the summary of the opinion of the financial advisor to SCM contained in the section of this proxy statement and prospectus entitled The Offer Opinion of Jupiter to the Board of Directors of SCM, and the Written Opinion of Jupiter attached hereto as *Annex B*.

Bluehill ID Financial Projections

Bluehill ID provided income statement projections for its business to Jupiter in August 2009, for use in connection with Jupiter s financial analysis, summarized in the section of this proxy statement and prospectus entitled The Offer Opinion of the Financial Advisor of SCM.

Table of Contents

Income Statement Projections of Bluehill ID
(unaudited)

	Year End Dec. 31 2009	2010	2011	2012
	In thousands of U.S. dollars			
Sales	$ 29,389	$ 38,449	$ 48,207	$ 57,848
% growth	*240%*	*31%*	*25%*	*20%*
Cost of sales	(16,970)	(22,047)	(27,497)	(32,996)
% margin	*(58)%*	*(57)%*	*(57)%*	*57%*
Gross margin	12,419	16,402	20,710	24,852
% margin	*42%*	*43%*	*43%*	*43%*
Other Income	0	0	0	
Production/labour costs	(2,234)	(2,451)	(2,700)	
Selling & marketing	(3,772)	(3,924)	(4,234)	
Research & development	(1,443)	(1,599)	(1,746)	
G&A costs	(7,713)	(4,522)	(4,953)	
Depreciation and Amortisation	(950)	(1,587)	(1,631)	(1,735)
Other operating expenses	0	0	0	
Other expenses	0	0	0	
EBIT	(3,693)	2,319	5,445	7,498
% margin	*(13)%*	*6%*	*11%*	*13%*
Depreciation and Amortization	950	1,587	1,631	1,735
EBITDA	(2,744)	3,906	7,077	9,233
% margin	*(9)%*	*10%*	*15%*	*16%*
Finance cost	(214)	0	0	
% margin	*NM*	*NM*	*NM*	
Interest on debt and borrowing	(45)	0	0	
Foreign currency translation	(169)	0	0	
Finance income	220	4	83	
% margin	*1%*	*0%*	*0%*	
Interest income on loans and receivables	0	4	83	
Foreign currency translation	0	0	0	
Net gains on financial assets at fair value	220	0	0	
Profit before taxes	(3,688)	2,323	5,528	7,498
% margin	*(13)%*	*6%*	*11%*	*13%*
Income tax (expense)/income	(386)	(518)	(1,331)	(2,474)
% tax rate	*10%*	*(22)%*	*(24)%*	*(33)%*

Operating net income (loss)	(4,074)	1,804	4,197	5,023
% margin	*(14)%*	*5%*	*9%*	*9%*
Extraordinary one-off item	(4,774)	0	0	0
Net income (loss)	(8,848)	1,804	4,197	5,023
% margin	*(30)%*	*5%*	*9%*	*9%*

Table of Contents

Bluehill ID s management provided the above income statement projections for the years 2009 through 2011. The above income statement projections for 2012 were the result of Jupiter s formation of certain assumptions about Bluehill ID s business with respect to such period, which Bluehill ID management reviewed and confirmed. For 2012, Jupiter and Bluehill ID only projected certain key line items.

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

the security sector and the RFID industry in particular will continue to grow at faster rate than the economy as a whole;

Bluehill ID s business is not overly dependent on one industry or market segment and as such it is assumed that some of the sectors that suffered during the 2008-2009 market disruption will gradually show improvement;

government spending on transport and infrastructure projects in major markets will continue;

rules requiring the tagging of livestock and fish will continue to be strengthened to enable early tracking of problems such as contaminated food products;

the implementation of new production machinery for RFID inlays planned for 2009 will be successful and will result in added capacity and price reduction to enable Bluehill ID to increase its participation in the transport ticketing market;

gross margins would benefit from integration of acquired companies and economies of scale as Bluehill ID expands its sales and reduces its production and sourcing costs;

Bluehill ID would successfully develop and sell new products and services including, but not limited to, its new family of Multi ISO readers, eGovernment readers and ePassport enrollment units;

Bluehill ID s investment in added senior level sales resources in Germany, Brazil and the U.S. will result in pull through sale of existing and future products;

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

the pending patents of Bluehill ID for transponders and readers will be granted in the U.S. and elsewhere with no substantial delay;

the world economy, particularly the economy of Germany, Brazil, Australia, Canada and the U.S. would begin recovering from the current state of economic recession in late 2009; and

the Mybility solution offered by Multicard in the Netherlands will continue to attract new local government clients.

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

The Bluehill ID income statement projections set forth above are included in this proxy statement and prospectus only because this information was provided to Jupiter for use in its fairness analysis provided to the SCM board of directors. The preliminary Bluehill ID income statement projections were not prepared with a view to public disclosure or compliance with the published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The Bluehill ID income statement projections do not purport to present operations in accordance with U.S. GAAP.

No independent accountants have compiled, examined or performed any procedures with respect to the preliminary Bluehill ID income statement projections, 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.

Jupiter reviewed and relied upon the Bluehill ID income statement projections in rending its opinion of fairness, as summarized in the section of this proxy statement and prospectus entitled The Offer Opinion of Jupiter to the Board of Directors of SCM and attached hereto as *Annex B*. You are urged to read carefully these Bluehill ID financial projections together with the Bluehill ID financial statements, the Risk Factors, and the summary of the opinion of the financial advisor to SCM contained in the section of this proxy statement and prospectus entitled The Offer Opinion of Jupiter to the Board of Directors of SCM, and the Written Opinion of Jupiter attached hereto as *Annex B*.

Opinion of Jupiter to the Board of Directors of SCM

On August 21, 2009 SCM engaged Jupiter to render an opinion evaluating the financial fairness of the consideration to be paid by SCM as part of the Offer to effect the business combination to shareholders of Bluehill ID that tender their bearer shares in Bluehill ID. At the September 16, 2009 meeting of SCM s board of directors, Jupiter rendered its oral opinion to the board of directors, subsequently confirmed in writing, to the effect that, as of September 16, 2009, and based upon and subject to certain matters stated therein, the consideration to be paid by SCM in the Offer is fair, from a financial point of view, to SCM.

The full text of Jupiter s written opinion, dated September 16, 2009, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations on the review undertaken by Jupiter in connection with its opinion is attached with the consent of Jupiter, to this proxy statement and prospectus as *Annex B* and is incorporated into this proxy statement and prospectus by reference. This summary of Jupiter s opinion set forth in this proxy statement and prospectus is qualified in its entirety by reference to the full text of Jupiter s written opinion attached as *Annex B*. You are encouraged to read Jupiter s written opinion and this section carefully and in their entirety.

SCM s board of directors, and not Jupiter, determined the amount of consideration to be paid by SCM in the Offer and Jupiter s written 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 transaction. The written opinion addresses only the fairness, from a financial point of view, of the consideration to be paid by SCM in the transaction. It does not address the relative merits of the transaction 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 Offer.

Jupiter s written opinion should not be construed as creating any fiduciary duty on Bluehill ID s part to any party. This Opinion is not intended to be, and does not constitute, a recommendation to the board of directors of SCM, any security holder or any other person as to how to act or vote with respect to any matter relating to the business combination and the Offer. Jupiter s written opinion, including the contents hereof does not address the underlying business decision of SCM to engage in the transaction, the relative merits of the transaction as compared to any other alternative business strategies, that might exist for SCM or the effect of any other transaction in which SCM might engage. Jupiter did not recommend any specific consideration to the board of directors of SCM or any other person nor indicated that any given consideration constituted the only appropriate consideration for the business combination.

SCM did not request the advice of Jupiter with respect to alternatives to the business combination transaction, and Jupiter did not advise SCM with respect to alternatives to the transaction or SCM s underlying decision to proceed with or effect the transaction.

Jupiter s written 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 business combination or the Offer.

While this summary describes the analysis and factors that Jupiter deemed material in rendering the Opinion, it is not a comprehensive description of all analyses and factors considered by Jupiter. 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 written opinion, Jupiter 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, Jupiter 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 written opinion. Several analytical methodologies were employed and no one method of analysis should be regarded as critical to the overall conclusion reached by Jupiter. 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 Jupiter is based on all analyses and factors taken, as a whole, and also on application of Jupiter s own experience and judgment. This conclusion may involve significant elements of subjective judgment and qualitative analysis. Jupiter 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, Jupiter 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 Jupiter 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 Jupiter with respect to whether the consideration to be paid by SCM in the Offer 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 Jupiter s written 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 Bluehill ID or the business combination. 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 Bluehill ID, and the business combination are being compared.

The following is a summary of Jupiter s Opinion. We encourage you to read Jupiter s written Opinion carefully in its entirety, which is attached to this proxy statement and prospectus as *Annex B*.

Procedures Followed and Assumptions

In connection with its written opinion, Jupiter, among other things:

reviewed income statement projections for SCM for calendar years 2009 2011 prepared and approved by SCM s management;

reviewed income statement projections for Bluehill ID for calendar years 2009 2011 prepared and approved by Bluehill ID s management;

prepared various other financial forecasts, which were confirmed by SCM, relating to the business of SCM;

prepared various other financial forecasts, which were confirmed by Bluehill ID, relating to the business of Bluehill ID;

reviewed certain internal financial projections of SCM and Bluehill ID on a pro forma combined basis, furnished to Jupiter by SCM and Bluehill ID;

reviewed certain publicly available research analyst reports for SCM and Bluehill ID;

reviewed SCM s audited financial statements for its fiscal years ended 2008, 2007, and 2006, as contained in SCM s Annual Reports on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2009, March 18, 2008, and March 20, 2007, respectively;

reviewed SCM s unaudited financial statements for its fiscal quarter ended June 30, 2009, as contained in SCM s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 14, 2009;

reviewed Bluehill ID s annual reports for 2008 and 2007;

56

Table of Contents

reviewed certain other relevant financial and operating data of SCM and Bluehill ID made available to Jupiter by SCM and Bluehill ID;

reviewed certain communications from SCM and Bluehill ID to their respective stockholders;

held discussions with members of the senior management of SCM and Bluehill ID with respect to the businesses and prospects of SCM and Bluehill ID, respectively;

reviewed the pro forma financial impact of the business combination on SCM and Bluehill ID based on assumptions relating to transaction expenses, cost savings and other relevant adjustments as determined by the senior management of SCM;

reviewed public information with respect to certain other publicly traded companies Jupiter deemed relevant in evaluating the business of Bluehill ID;

reviewed the financial terms, to the extent publicly available, of certain other business combinations Jupiter deemed to be reasonably comparable to the transaction;

reviewed historical unit prices and trading volumes of the common units of SCM and Bluehill ID, respectively; and

conducted such other financial studies, analyses and investigations as Jupiter deemed appropriate.

Jupiter was not requested to opine as to, and its written opinion did not express an opinion as to or otherwise address (1) the impact of any transfer restrictions on the securities of SCM, whether imposed by law or contract; (2) the relative merits of the business combination as compared to any alternative business strategies that might exist for SCM or the effect of any other transaction in which SCM might engage; (3) the solvency, creditworthiness or fair value of SCM or Bluehill ID or any other participant in the transaction under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters; or, (4) any legal, tax or accounting issues concerning the business combination or the legal or tax consequences of the business combination to any party.

In preparing its written opinion, Jupiter did not assume any responsibility to independently verify the information referred to above. Instead, with SCM s consent, Jupiter relied on the information being accurate and complete. Jupiter also made the following assumptions, in each case with SCM s consent, that (1) the internal operating data and financial analyses and forecasts supplied to Jupiter were reasonably prepared on bases reflecting the best currently available estimates and judgments of SCM s and Bluehill ID s senior management as to SCM s and Bluehill ID s recent and likely future performance; (2) the business combination will be consummated on the terms and subject to the conditions as described by the management of SCM; and (3) 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 SCM or Bluehill ID.

Jupiter s written opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Jupiter as of September 16, 2009. Events occurring after the date hereof could materially affect this written opinion. Jupiter has not undertaken to update, revise, reaffirm or withdraw its written opinion or otherwise comment upon events occurring after September 16, 2009. Jupiter has not expressed, and does not herein express any opinion as to the price at which SCM common stock and bearer shares in Bluehill ID may trade at any time.

Summary of Financial Analyses

As part of the financial analyses, Jupiter calculated a low and high range for the implied transaction enterprise value (which Jupiter defined as equity value plus debt less cash and cash equivalents) of Bluehill ID implied by the business combination. As of July 31, 2009, Bluehill ID had approximately $9.36 million in cash and $1.26 million in debt, according to information provided by Bluehill ID.

The low range for the enterprise value of Bluehill ID is $31.29 million and is based on: 16.76 million new shares of SCM common stock being issued in connection with the Offer (based on 32,023,797 bearer shares in Bluehill ID outstanding and a then assumed exchange ratio of 0.5233) valued at $39.38 million, using a value per share of SCM common stock of $2.35.

Table of Contents

The high range for the enterprise value of Bluehill ID is $40.33 million and is based on 16.76 million new shares of SCM common stock being issued in connection with the Offer (based on 32,023,797 bearer shares in Bluehill ID outstanding and a then assumed exchange ratio of 0.5223) valued at $48.43 million, using a value per share of SCM common stock of $2.89.

Offer Consideration (in millions, except per share data)	**Low Range**	**High Range**
Total Number of New Shares of SCM Common Stock to be Issued	16.76	16.76
Value per new share of SCM Common Stock	$ 2.35(1)	$ 2.89(2)
Equity Value	$ 39.38	$ 48.43
Cash	$ 9.36	$ 9.36
Debt	$ 1.26	$ 1.26
Enterprise Value	$ 31.29	$ 40.33

(1) Volume-weighted average share price of last 90 days trading, as of September 11, 2009. The low value of the SCM common stock to be issued is valued at $39.38 million, based on the 90-day volume weighted average closing price per share as of September 11, 2009.

(2) Highest share price of last 90 days trading, as of September 11, 2009. The high value of the SCM common stock to be issued is valued at $48.43 million, based on the highest share price of the last 90 trading days of $2.89 per share as of September 11, 2009.

The following represents a summary of the material financial analyses performed by Jupiter in connection with providing its written opinion to the SCM board of directors. Some of the summaries of financial analyses performed by Jupiter include information presented in tabular format. In order to fully understand the financial analyses performed by Jupiter, 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 Jupiter. Please consider in the following analysis that figures may not add up to the total due to rounding differences.

Comparable Company Analysis

Based on public and other available information, Jupiter calculated the multiples of enterprise value (which Jupiter defined as equity value, plus debt, less cash and cash equivalents) to the estimated calendar year 2009, 2010 and 2011 (2009e, 2010e, 2011e) sales (Sales), earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings before interest and taxes (EBIT) as well as the share price to the estimated 2009, 2010 and 2011 (2009e, 2010e, 2011e) net income per share (P/E Ratio) for companies in the electronic access control industry. The estimated financial data for the comparable companies was based on different broker reports for the particular peer companies. Jupiter believes that the companies listed below have some operations similar to some of the operations of Bluehill ID, but noted that none of these companies have the same management, composition, size, or combination of businesses as Bluehill ID:

Cogent Systems, Inc.;

Gemalto N.V.;

Hypercom Corp.;

L-1 Identity Solutions, Inc.;

Napco Security Systems, Inc.;

N.V. Nederlandsche Apparatenfabriek Nedap ;

Smartrac N.V.; and

Vasco Data Security International, Inc.

Table of Contents

The derived multiples were put into relation to the estimated 2009, 2010 and 2011 sales, EBITDA, EBIT and earnings figures of Bluehill ID, which have been provided by Bluehill ID. The minimum and maximum multiple range is based on a 20% discount and a 20% premium, respectively, to the median multiple calculated from the multiples of all peer companies. The following table sets forth the multiples indicated by this analysis:

Enterprise Value to:	Multiple Min	Multiple Max	Implied Enterprise Value Min	Implied Enterprise Value Max
	(U.S. Dollars, in millions)			
(Equity Value for Net Income Multiples)				
2009e Sales	1.1x	1.7x	$ 32.9	$ 49.4
2010e Sales	1.0x	1.6x	$ 40.0	$ 60.0
2011e Sales	0.8x	1.2x	$ 38.6	$ 57.8
2009e EBITDA	8.2x	12.2x	NM	NM
2010e EBITDA	6.6x	10.0x	$ 25.9	$ 38.9
2011e EBITDA	5.0x	7.4x	$ 35.1	$ 52.7
2009e EBIT	13.4x	20.0x	NM	NM
2010e EBIT	9.0x	13.4x	$ 20.8	$ 31.2
2011e EBIT	6.6x	9.8x	$ 35.7	$ 53.6
2009e Net Income	17.0x	25.4x	NM	NM
2010e Net Income	13.2x	19.8x	$ 15.7	$ 27.6
2011e Net Income	8.1x	12.1x	$ 25.8	$ 42.8

The comparable company analysis resulted in an implied enterprise value range of $32.9 million to $60.0 million based on 2009e, 2010e and 2011e revenues. Based on 2009e, 2010e and 2011e EBITDA, the comparable company analysis resulted in an implied enterprise value range of $25.9 million to $52.7 million. The implied enterprise value range based on EBIT multiples amounts to $20.8 million to $53.6 million and based on P/E multiples the implied enterprise value ranges between $15.7 million and $42.8 million. The estimated 2009 EBITDA and EBIT valuation multiples derived from the comparable company analysis did not lead to a meaningful valuation, given that Bluehill ID expects negative EBITDA and EBIT figures in 2009. As a result, EBITDA and EBIT valuation multiples for 2009e could not be considered in forming Jupiter s opinion.

Table of Contents

Comparable Transactions Analysis

Based on public and other available information, Jupiter calculated the multiples of enterprise value (which Jupiter defined as equity value plus debt less cash and cash equivalents) to the latest twelve-month (LTM) sales, EBITDA, and EBIT, which are implied in the following acquisitions of companies in the electronic access control industry that have been announced since May 23, 2006:

Date Announced	Name of Acquirer	Name of Target
2009-04-13	Thoma Bravo LLC	Entrust, Inc.
2008-11-13	R&R Consulting Partners LLC	VeriChip Corp.
2008-10-07	Aladdin Knowledge Systems Ltd.	Secure Computing Corp., Secure SafeWord
2008-09-22	Francois-Charles Oberthur Fiduciaire S.A.	Oberthur Technologies Group
2008-08-20	Investor Group lead by Vector Capital Corp.	Aladdin Knowledge Systems Ltd.
2008-07-28	Sophos Holdings GmbH	Utimaco Safeware AG
2008-06-25	Aladdin Knowledge Systems Ltd.	Eutronsec S.p.A
2008-03-10	TriQuint Semiconductor, Inc.	WJ Communications, Inc.
2008-03-03	Bottomline Technologies, Inc.	Optio Software, Inc.
2008-02-13	Thoma Cressey Bravo, Inc.	Macrovision Corp., Software Business
2008-01-07	L-1 Identity Solutions, Inc.	Bioscrypt, Inc.
2008-01-04	Azkoyen S.A.	primion Technology AG
2007-10-12	Endace Ltd.	Applied Watch Technologies LLC
2007-08-09	Applied Digital Solutions, Inc.	Digital Angel Corp.
2007-06-12	SonicWALL, Inc.	Aventail Corp.
2007-05-03	Investor Group lead by Vector Capital	SafeNet, Inc.
2006-10-10	Oberthur Technologies Group	IM Technologies Ltd.
2006-07-17	Viisage Technology, Inc.	Iridian Technologies, Inc.
2006-05-23	ASSA ABLOY AB	Fargo Electronics, Inc.

The derived multiple range was applied to the estimated 2009 sales, EBITDA and EBIT figures of Bluehill ID, which have been provided by Bluehill ID. The comparable transaction analysis has been based on 2009e figures, as no LTM figures were available for Bluehill ID. In addition, 2008 Bluehill ID figures do not properly reflect the business as the acquisitions of Bluehill ID were not accounted for the entire year 2008. The minimum and maximum multiple range is based on a 20% discount and a 20% premium respectively to the median multiple calculated from the precedent transactions analysis.

The following table sets forth the implied sales, EBITDA and EBIT transaction multiple ranges indicated by the precedent transaction analysis and the respective implied enterprise values:

	Low	High
	(U.S. Dollars in millions)	
Enterprise Value/2009e Sales:		
Precedent Transaction Comparables Multiple Range	1.1x	1.7x

Implied Enterprise Value	*$ 32.9*	*$ 49.4*
Enterprise Value/2009e EBITDA:		
Precedent Transaction Comparables Multiple Range	10.8x	16.2x
Implied Enterprise Value	*NM*	*NM*
Enterprise Value/2009e EBIT:		
Precedent Transaction Comparables Multiple Range	18.9x	28.3x
Implied Enterprise Value	*NM*	*NM*

Jupiter calculated the implied enterprise values based on the range of estimated 2009 sales, EBITDA, and EBIT valuation multiples based on the precedent transactions analysis. This analysis resulted in an implied enterprise value range of $32.9 million to $49.4 million based on 2009e sales. The estimated 2009 EBITDA and EBIT valuation multiples derived from the precedent transactions analysis did not lead to a meaningful valuation,

Table of Contents

given that Bluehill ID expects negative EBITDA and EBIT figures in 2009. As a result, EBITDA and EBIT valuation multiples could not be considered in forming Jupiter s opinion.

Discounted Cash Flow Analysis

Jupiter performed a discounted cash flow analysis on Bluehill ID 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. Jupiter based its discounted cash flow analysis on management estimates for financial performance of the business over the analyzed period (through fiscal year 2018).

In its analysis, Jupiter used discount rates ranging from 11% to 13% to reflect the overall risk associated with Bluehill ID s operations and projected financial performance. Jupiter calculated a terminal value at the end of 2018 using (1) the exit multiple method based on EBITDA, which incorporated an EBITDA multiple range of 7.5x to 8.5x, and (2) the perpetual growth method, which incorporated a growth range of 1.5% to 2.5%.

Based on its discounted cash flow analysis, Jupiter estimated that Bluehill ID s present value of enterprise ranged from $43.5 million to $70.0 million.

Analyst Price Target

Using publicly available information, Jupiter reviewed the research analyst price target for bearer shares in Bluehill ID of Close Brothers Seydler Research. Close Brothers Seydler Research started its coverage of Bluehill ID by issuing a comprehensive research report on September 11, 2009. Close Brothers Seydler Research estimated a fair enterprise value of $42.7 million for Bluehill ID (The enterprise value was published in Euros. The U.S. dollar value was based on a foreign exchange rate of 0.6867 Euro per U.S. dollar, as of September 11, 2009).

Historical Trading Ratio Analysis

Jupiter analyzed the historical trading ratios as the market capitalization of SCM divided by the combined total market capitalization of Bluehill ID and SCM for the last 90 trading days, as of September 16, 2009 and calculated the following results (the calculation is based on fully diluted number of shares as provided by SCM and Bluehill ID):

Period	**Trading Ratio**
Current (September 16, 2009)	66.4%
20-day average	60.7%
30-day average	59.5%
60-day average	58.0%
90-day average	57.8%
90-day maximum	66.4%
90-day minimum	52.5%

Summary Analysis

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, Jupiter is of the opinion that, as of September 16, 2009 the business combination consideration to be paid by SCM in the business combination is fair from a financial point of view, to SCM.

The material analyses performed by Jupiter have been summarized above. Nonetheless, the summary set forth above does not purport to be a complete description of the analyses performed by Jupiter. Jupiter 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, Jupiter 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.

Table of Contents

General

SCM retained Jupiter to provide a fairness opinion in connection with the potential business combination based on Jupiter s qualifications, expertise, reputation, and extensive knowledge of the RFID, security, and identification sector. In its selection process, SCM management had looked into a range of investment banks which specialized in transactions for small and micro cap corporations, and ultimately short-listed and presented four investment banks to the SCM board of directors. In particular due to Jupiter s extensive knowledge of the RFID, security and identification sector, the SCM board of directors unanimously decided to engage Jupiter.

Jupiter became entitled to a fixed fee of 35,000 upon its completion of the work necessary to render a fairness opinion, regardless of the conclusion reached therein, which was not contingent upon completion of the Offer. Jupiter Capital Partners, the parent company of Jupiter, was entitled to a fixed fee of 40,000, and is entitled to receive an additional fee of 125,000 if more than 75% of the bearer shares in Bluehill ID are tendered in the Offer and the Offer is consummated. Jupiter Capital Partners acted as financial advisor to SCM in connection with the potential business combination. Further, SCM has agreed to reimburse Jupiter and Jupiter Capital Partners for their reasonable out-of-pocket expenses incurred in connection with the engagement.

Other than the engagement between SCM and Jupiter with respect to rendering the fairness opinion in connection with the Offer as described herein, and SCM s engagement of Jupiter Capital Partners as financial advisor in connection with the business combination, 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 Jupiter as a result of the relationship between Jupiter, Jupiter Capital Partners, SCM or Bluehill ID. Jupiter Capital Partners advised Bluehill ID during the past two years on two different capital market projects, however, this relationship was not material to Jupiter Capital Partners.

Interests of SCM Directors and Executive Officers in the Offer

To the knowledge of SCM, no director or executive officer of SCM, nor any of their affiliates, have any interests in the Offer that differ from, or are in addition to, their interests as other holders of SCM common stock. As of the record date for the SCM special meeting, the directors and executive officers of SCM, together with their affiliates, beneficially owned or had the right to vote, directly or indirectly, in the aggregate approximately 3,211,260 shares of SCM common stock, entitling them to exercise approximately 12.8% of the voting power of the SCM common stock at the SCM special meeting. SCM cannot complete the Offer unless the issuance of the shares of SCM common stock to be issued in connection with the Offer 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 415,344 shares of SCM common stock and warrants to purchase approximately 781,750 shares of SCM common stock. These options, warrants, and any shares of SCM common stock issued upon the exercise thereof will not be entitled to vote at the SCM special meeting.

As of November 9, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of November 9, 2009, Lincoln Vale also beneficially owned approximately 9.8% of the outstanding bearer shares in Bluehill ID. Upon the closing of the Offer it is anticipated that Lincoln Vale will beneficially own approximately 7.8% of the outstanding shares of SCM common stock. Dr. Hans Liebler, one of SCM s directors, is a partner of Lincoln Vale and may be deemed to beneficially own, either directly or indirectly through limited partnerships, the shares beneficially owned by Lincoln Vale. Accordingly, Dr. Liebler and/or Lincoln Vale could have influence over the outcome of corporate actions requiring board and stockholder approval, respectively, including at the SCM special meeting to consider the Offer, 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 stockholders.

Table of Contents

Bluehill ID s Reasons for the Business Combination and Offer; Recommendation of the Bluehill ID Board of Directors

The board of directors of Bluehill ID has considered the benefits and risks associated with the Business Combination Agreement with SCM and has determined that the proposed combination is in the best interests of Bluehill ID and its shareholders. In light of the foregoing, the board of directors of Bluehill ID unanimously recommends that its shareholders accept the Offer.

In reaching its decision to approve the Business Combination Agreement and the Offer, Bluehill ID s board of directors considered a number of factors, including the following, which Bluehill ID s board of directors viewed as supporting its recommendation:

the business combination will allow the Bluehill ID shareholders to gain an equity interest in SCM, thus providing a vehicle for continued participation by the Bluehill ID shareholders in the future performance not only of the business of Bluehill ID, but also of SCM;

the combined companies are expected to be well positioned to pursue and implement a united strategy focused on the concept of buy, build, and grow. The RFID industry in general and the ID segment in particular, is very fragmented and consolidation is expected to be beneficial to the market, as well as Bluehill ID s and SCM s stockholders;

the conclusion of the board of directors of Bluehill ID that the business combination offered a better alternative for its shareholders than the possibility of implementing Bluehill ID s business plan on a stand-alone basis and deferring consideration of a business combination pending (i) a more favorable financial climate or (ii) further progress in the development of their own business and presence in the marketplace;

the expectation of the board of directors of Bluehill ID that the business combination offered a better alternative for Bluehill ID to gain market share and accelerate growth through a combination with SCM that (i) provided increased and more diverse product offerings and (ii) increased geographical coverage in areas of the world largely not covered by existing Bluehill ID operations;

the fact that from a managerial and technological perspective, the combined companies will be stronger and broadened as a result of the business combination and that the intellectual property portfolio of the combined companies will be greatly expanded;

the expectation that the business combination will be treated as a reorganization for U.S. federal and foreign income tax purposes with the result that the Bluehill ID shareholders are generally not expected to recognize taxable gain or loss for income tax purposes by reason of the receipt of shares of SCM common stock;

the likelihood in the judgment of the board of directors of Bluehill ID that the conditions to be satisfied prior to consummation of the business combination will be satisfied or waived;

the fact that Ayman S. Ashour, Dr. Cornelius Boersch and Daniel S. Wenzel are anticipated to be Bluehill ID s representatives on the SCM board of directors, with Ayman S. Ashour serving as Executive Chairman of the SCM Board and having significant influence on executing the buy, build, and grow strategy of the combined companies; and

- the cash position of each of Bluehill ID and SCM and the absence of any material debt of either of them.

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

- the fact that the number of shares of SCM common stock to be received by Bluehill ID shareholders is fixed, regardless of any increase or decrease in the price of shares of SCM common stock prior to the closing of the Offer;

- 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 that will be received by the Bluehill ID shareholders;

Table of Contents

the possibility that the business combination might not be completed and the potential adverse effect of a public announcement to that effect on the reputation of Bluehill ID;

the expected significant length of time between signing the Business Combination Agreement and completing the business combination or terminating the Business Combination Agreement, and the restrictions on the conduct of Bluehill ID s business in the intervening period;

the fact that following announcement of the Business Combination Agreement, Bluehill ID s relationship with employees, agents and customers might be negatively affected because of uncertainties surrounding Bluehill ID s future status and direction;

the circumstances under which Bluehill ID may become liable to pay a termination fee to SCM of $2 million and the potential effect of such termination fee in deterring other potential acquirers;

the circumstances under which Bluehill ID may become liable to pay a break-up fee to SCM of $1.5 million if fewer than 50% plus one of the bearer shares in Bluehill ID are tendered during the course of the offer and the potential effect of such break-up fee on Bluehill ID s on-going business;

the fact that information contained in this proxy statement and prospectus regarding Bluehill ID, including without limitation, its operations, financial results, significant shareholders and related party transactions will be made publicly available to Bluehill ID s competitors, customers, employees and others (even if the business combination is not consummated for any reason); and

various other risks associated with SCM and the business combination, including the risks described in the section entitled Risk Factors in this proxy statement and prospectus.

The above discussion of information and factors considered by the Bluehill ID 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 Bluehill ID board of directors did not find it practicable to quantify or otherwise assign relative weight to the specific factors considered. In addition, the Bluehill ID 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 Bluehill ID board of directors may have given different weight to different factors.

After taking into account all of the factors described above, however, the Bluehill ID board of directors unanimously determined that the Business Combination Agreement and the related transactions were advisable and fair to, and in the best interests of Bluehill ID and its shareholders.

Interests of Bluehill ID Directors and Executive Officers in the Offer

In considering the recommendation of the Bluehill ID board of directors with respect to the Offer, Bluehill ID shareholders should be aware that certain members of the Bluehill ID board of directors and certain executive officers of Bluehill ID have interests in the business combination that may be different from, or in addition to, interests they may have as Bluehill ID shareholders. The Bluehill ID board of directors was aware of these potential conflicts of interest and considered them, among other matters, in reaching their decision to approve the Business Combination Agreement and the Offer, and to recommend that the Bluehill ID shareholders accept the Offer.

Ownership Interests

As of November 9, 2009, the directors and executive officers of Bluehill ID, together with their affiliates, beneficially owned in the aggregate 22,174,687, or approximately 62% of, the bearer shares in Bluehill ID, entitling them to exercise approximately 57% of the voting rights of Bluehill ID. This includes an option to purchase 3,914,790 bearer shares in Bluehill ID at an exercise price of CHF 1.00 per share until June 30, 2014 pursuant to the Call Option Agreement held by BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch. Pursuant to the Business Combination Agreement, Bluehill ID has agreed to use all commercially reasonable efforts, and to adopt resolutions and enter into agreements with SCM and third parties, as may be required such that, after the closing of the Offer any shares, exchangeable or convertible securities, options, warrants or similar instruments issuable under the Call Option Agreement shall cease to represent a right to acquire or receive bearer shares in Bluehill ID and shall instead represent a right to acquire or receive shares of SCM common stock. See the section entitled The Offer Treatment of Options.

As of November 9, 2009, Bluehill ID beneficially owned and had the right to vote 1,201,004 shares of SCM common stock, and Ayman Ashour, Bluehill ID s CEO and President of its board of directors, beneficially owned and had the right to vote an additional 104,000 shares; Bluehill ID and Mr. Ashour, collectively, beneficially own approximately 5.2% of the currently outstanding shares of SCM common stock. Accordingly, as a party to the business combination, Bluehill ID not only has a significant interest in the outcome of the SCM special meeting of its stockholders to consider the proposal to approve the Offer and, specifically, the issuance of the shares of SCM common stock in connection with the Offer, it can also influence the outcome of the proposals being considered at the SCM special meeting. The board of directors of Bluehill ID, including Messrs. Ashour and Wenzel and Dr. Boersch, will have the power to determine how the shares of SCM common stock held by Bluehill ID will be voted at the SCM special meeting of its stockholders. Bluehill ID may have objectives and interests that are different than those of SCM s other stockholders.

SCM Board of Directors

Following the closing of the Offer, the board of directors of SCM will consist of nine directors, comprised of six current SCM directors and three designees of Bluehill ID. SCM currently anticipates that following the closing of the Offer Steven Humphreys, Dr. Hans Liebler, Felix Marx, Lawrence W. Midland, Douglas Morgan, and Simon Turner will continue to serve on the board of directors of SCM, that Ayman S. Ashour (who will be Executive Chairman), Dr. Cornelius Boersch and Daniel S. Wenzel will serve on the board of directors of SCM as the Bluehill ID designees, and that Werner Koepf will resign from the board of directors of SCM.

Offer Consideration

The shareholders of Bluehill ID who accept the terms of the Offer and tender their bearer shares in Bluehill ID in connection with the Offer will receive 0.52 shares of SCM common stock for each bearer share in Bluehill ID tendered. The share exchange ratio of 0.52 shares of SCM common stock for each bearer share in Bluehill ID tendered was negotiated between Bluehill ID and SCM, and no adjustment of the share exchange ratio will be made. Moreover, no fractional shares of SCM common stock will be issued. The share consideration received by any shareholder of Bluehill ID will be rounded down to an integer number of shares of SCM common stock. In lieu of fractional shares, shareholders will receive an amount of cash for each fractional share calculated on the basis of 1.88 per share of SCM common stock, which was the Xetra closing price per share of SCM common stock as reported on the Deutsche Boerse AG website and Wertpapier-Informationssystem of Boersen-Zeitung on September 18, 2009.

Treatment of Options

Bluehill ID has authorized and implemented the Bluehill ID Option Plans, which consist of an executive share option plan and an executive bonus plan. Bluehill ID has a conditional share capital under which up to 4,000,000 bearer shares in Bluehill ID may be issued in connection with the Bluehill ID Option Plans. As of October 1, 2009, no options or awards had been issued or granted under the Bluehill ID Option Plans but some options may be granted in the future upon the achievement of certain performance targets pursuant to the terms of existing employment agreements described herein. Options and other awards under the Bluehill ID Option Plans can only be granted within 60 days from publication of the audited annual report of Bluehill ID, which is expected to be no earlier than May 15, 2010.

Bluehill ID has also granted to BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch, an option to purchase up to 3,914,790 bearer shares in Bluehill ID at an exercise price of CHF 1.00 per share until June 30, 2014 pursuant to the Call Option Agreement.

In addition, former shareholders of subsidiaries of Bluehill ID, including Yoonison BV, ACiG AG, TagStar Systems GmbH and Multicard AG, Multicard GmbH, as well as a seller of assets acquired by Multicard GmbH, are parties to the Earn Out Agreements, pursuant to which bearer shares in Bluehill ID are issuable to these beneficiaries upon the achievement of specified performance targets based on Bluehill ID s sales and profits before taxes for 2009 and 2010. If all such targets are achieved, bearer shares in Bluehill with a value of 482,000 would be issuable with respect to 2009 and 422,000 would be issuable with respect to 2010, in each case within 60 days of the release of annual results for Bluehill ID. The actual number of bearer shares in Bluehill ID that are issuable under the Earn Out Agreements will be based on the average trading price of a bearer share in Bluehill ID during the month prior to issuance. Based on an average price per share of a bearer share in Bluehill ID during the month of September 2009 of 0.77818, up to an aggregate of 1,161,685 bearer shares in Bluehill ID could be issuable under the Earn Out Agreements.

Pursuant to the Business Combination Agreement, Bluehill ID has agreed to use all commercially reasonable efforts, and to adopt resolutions and enter into agreements with SCM and third parties, as may be required such that, after the closing of the Offer, any shares, exchangeable or convertible securities, options, warrants or similar instruments issuable under the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans shall cease to represent a right to acquire or receive bearer shares in Bluehill ID and shall instead represent a right to acquire or receive shares of SCM common stock. The conversion shall take place by applying the share exchange ratio and, if necessary, by rounding down to the next integer number of shares in SCM. The options granted by the Call Option Agreement and issued pursuant to the Bluehill ID Option Plans shall have an exercise price per share in SCM (rounded up to the nearest whole cent) equal to the exercise price per share in Bluehill ID divided by the share exchange ratio. If all of the options and other rights to acquire or receive bearer shares in Bluehill ID pursuant to the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans are converted into options or other rights to acquire or receive shares of SCM common stock, based on the numbers and assumptions described above, it is estimated that an aggregate of 4,719,767 shares of SCM common stock could be issuable pursuant to the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans. Any such shares that may be issued by SCM pursuant to the Call Option Agreement and the Earn Out Agreements are currently anticipated to be restricted shares within the meaning of the Securities Act of 1933, as amended.

No Appraisal Rights

Neither SCM stockholders nor the Bluehill ID shareholder will be entitled to dissenters rights or appraisal rights under the Delaware General Corporation Law, Swiss corporate law, or German corporate law, in connection with the business combination or the Offer. Furthermore, neither Swiss merger act nor the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) are applicable to the Offer.

Regulatory Matters

The Offer is not subject to any federal, state or foreign regulatory approvals, other than the approval by the Securities and Exchange Commission of the Registration Statement on Form S-4, of which this proxy statement and prospectus is a part, the approval by BaFin of the German prospectus, and the approval for the listing of the new shares of SCM common stock on the NASDAQ Stock Market and the Frankfurt Stock Exchange.

NASDAQ and Frankfurt Stock Exchange Listing of SCM Common Stock

SCM will use commercially reasonable efforts to cause all shares of SCM common stock to be issued in connection with the Offer to be approved for listing on the NASDAQ Stock Market subject to notice of issuance. The Business Combination Agreement provides that such approval by NASDAQ of the shares of SCM common stock to be issued in connection with the Offer is a condition precedent of the Offer and neither party may waive this condition. In addition, the parties have agreed to use their respective commercially reasonable efforts to obtain the approval for the listing of the new shares of SCM common stock on the Frankfurt Stock Exchange as soon as reasonably practicable after the closing of the Offer.

Tax Considerations

Neither SCM nor Bluehill ID are expected to recognize any gain or loss under U.S. tax law solely as a result of the consummation of the Offer. See Material United States Federal Income Tax Consequences of the Business Combination.

Table of Contents

Anticipated Accounting Treatment

SCM will account for the business combination as a purchase of the business, which means that the assets and liabilities of Bluehill ID will be recorded at their fair value and the results of operations of Bluehill ID will be included in SCM s results of operations from and after the effective time of the business combination. The purchase method of accounting is based on Accounting Standards Codification 805-10, Business Combinations (ASC 805-10). The provisions of ASC 805-10 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.

Federal Securities Laws Consequences

The shares of SCM common stock to be issued in the Offer will be registered under the Securities Act of 1933. These shares will be freely transferable under the Securities Act of 1933, except for SCM common stock issued to any person who is deemed to be an affiliate of SCM. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with SCM and includes SCM s respective executive officers and directors, as well as principal stockholders. Affiliates may not sell their SCM common stock acquired in the Offer, except pursuant to an effective registration statement under the Securities Act of 1933, covering the resale of those shares; or an applicable exemption under the Securities Act of 1933.

Consummation of the Offer

SCM expects to launch the Offer in accordance with applicable German law and the regulations of the Frankfurt Stock Exchange following the effectiveness of the Registration Statement on Form S-4, of which this proxy statement and prospectus is a part, and the filing and approval of a German prospectus with BaFin. Pursuant to the terms of the Business Combination Agreement, the Offer period will last between four and twelve weeks, although the Offer period may be extended in the event a superior offer is made for Bluehill ID during the Offer period. The Offer period can be shortened or prolonged with the consent of Bluehill ID. Following the expiration of the Offer period and satisfaction or, to the extent permissible under the terms of the Business Combination Agreement and by applicable law, waiver of all conditions to the obligations of the parties set forth in the Business Combination Agreement, the closing of the Offer is expected to occur.

The Board of Directors and Management of SCM and Bluehill ID Following the Offer

See the sections Management SCM s Board of Directors The Board of Directors of SCM Following the Offer and Management The Board of Directors and Management of Bluehill ID Following the Offer.

Ownership of SCM Following the Offer

Based on the number of bearer shares in Bluehill ID currently outstanding (which excludes any bearer shares in Bluehill ID that may be issued or issuable after the date of this proxy statement and prospectus, including pursuant to the Call Option Agreement), SCM expects to issue an aggregate of approximately 16,562,015 shares of SCM common stock in connection with the Offer. The completion of the Offer will not change the number of shares of SCM common stock currently owned by SCM stockholders. However, since SCM expects to issue a substantial number of new shares of SCM common stock in connection with the Offer, each outstanding share of SCM common stock immediately prior to the closing of the Offer will represent a smaller percentage of the total number of shares of SCM common stock outstanding following the closing of the Offer.

After the business combination, the percentage ownership of the outstanding shares of SCM held by current SCM stockholders and current Bluehill ID shareholders will depend on the percentage of outstanding bearer shares in Bluehill ID that is tendered pursuant to the Offer. If all of the bearer shares in Bluehill ID currently outstanding (which excludes any bearer shares in Bluehill ID that may be issued or issuable after the date of this proxy statement and prospectus, including pursuant to the Call Option Agreement) are tendered in the Offer, post-Offer the current stockholders of SCM will hold approximately 60% of the outstanding shares of SCM common stock and the current shareholders of Bluehill ID will hold approximately 40% of the outstanding shares of SCM common stock. This includes 1,201,004 shares of SCM common stock, representing 4.8% of the currently outstanding shares of SCM common stock, that Bluehill ID holds. Immediately after the closing of the Offer, these shares are expected to continue to be held by Bluehill ID but the board of directors of Bluehill ID may determine to sell these shares on terms to be determined by the board, including to a transferee that may be an affiliate of SCM or Bluehill ID or one of their respective officers and directors.

In addition, immediately after the closing of the Offer, it is anticipated that Bluehill ID s largest shareholder, Mountain Partners AG, together with its affiliates and certain related parties, including BH Capital Management AG, Daniel S. Wenzel and Dr. Cornelius Boersch, will directly or indirectly beneficially own approximately 25.2% of the outstanding shares of SCM common stock; and Ayman S. Ashour, Bluehill ID s Chief Executive Officer and President of its board of directors, will directly or indirectly beneficially own, including through BH Capital Management AG, approximately 10.8% of the outstanding shares of SCM common stock. Mr. Wenzel and Dr. Boersch, who currently serve as directors of Bluehill ID and Mountain Partners AG, and Mr. Ashour are expected to be appointed to SCM s board of directors following the closing of the Offer. Accordingly, Mr. Ashour, Mountain Partners AG, Mr. Wenzel and Dr. Cornelius Boersch will have significant influence over the outcome of corporate actions requiring board and stockholder approval.

For more information regarding the current and anticipated beneficial ownership of officers, directors and certain key stockholders of the combined companies prior to and after consummation of the transaction, see the sections entitled Principal Stockholders of SCM Microsystems and Principal Shareholders of Bluehill ID in this proxy statement and prospectus.

Table of Contents

THE BUSINESS COMBINATION AGREEMENT

This section contains a summary of the material provisions of the Business Combination Agreement. Because it is a summary, it does not include all the information that may be important to you. We encourage you to read carefully the entire copy of the Business Combination Agreement, as amended, which, with the exception of schedules and exhibits, is attached as Annex A to this proxy statement and prospectus, before you decide how to vote.

In addition, the Business Combination Agreement and this summary are included to provide stockholders with information regarding the terms of the Business Combination Agreement and are not intended to modify any other factual disclosures about SCM or Bluehill ID made in filings with the Securities and Exchange Commission or otherwise. The Business Combination Agreement contains representations and warranties made by SCM and Bluehill ID which have been made solely for the benefit of the other party and not for the purpose of providing information to be relied upon by SCM stockholders or Bluehill shareholders. Accordingly, in reviewing the representations and warranties in the Business Combination Agreement and this summary, it is important to bear in mind that the representations and warranties: should not be treated as categorical statements of fact, but rather as a way of allocating risk between the parties; have in some cases been qualified by disclosures that were made to the other party, which disclosures are not necessarily reflected in the Business Combination Agreement; may apply standards of materiality in a way that is different from what may be material to stockholders; were made only as of the date of the Business Combination Agreement or such other date or dates as may be specified in the Business Combination Agreement and will not be revised notwithstanding more recent developments; and may not describe the actual state of affairs as of the date they were made or at any other time. Information about SCM and Bluehill can be found elsewhere in this proxy statement and prospectus and in other public filings SCM makes with the Securities and Exchange Commission. See   Where You Can Find More Information.

General

The Boards of Directors of both SCM and Bluehill ID have unanimously adopted and approved the Business Combination Agreement, which provides for the transaction structure and process regarding the business combination of SCM and its subsidiaries with Bluehill ID and its subsidiaries. Pursuant to the Business Combination Agreement, SCM agreed to launch a share-for-share offer to the Bluehill ID s shareholders to purchase all of the outstanding bearer shares in Bluehill ID in exchange for newly issued shares of SCM common stock. Subject to the fulfillment of the conditions to the Offer, the Offer will result in a majority of the bearer shares in Bluehill ID being held by SCM and Bluehill ID s shareholders who accept the Offer becoming stockholders in SCM.

The Offer

SCM will launch the Offer by publishing a Voluntary Public Exchange Offer pursuant to which SCM offers to all shareholders of Bluehill ID to purchase all their bearer shares in Bluehill ID in exchange for shares of SCM common stock. The parties agreed on an offer period between four and twelve weeks. However, if a superior offer for shares in Bluehill ID (i.e. an offer which Bluehill ID s board of directors considers materially more favorable to Bluehill ID and its shareholders than SCM s offer) is published by a third party, the offer period may be extended by SCM so that it is as long as the offer period of the superior offer, even if this results in an offer period exceeding twelve weeks. The offer period can also be shortened or prolonged with the consent of Bluehill ID.

The Voluntary Public Exchange Offer will provide a share consideration of 0.52 shares of SCM common stock for each bearer share in Bluehill ID tendered. This share exchange ratio was determined based on a negotiation between SCM and Bluehill ID. No fractions of new shares in SCM will be issued. The share consideration to be received by all shareholders in Bluehill ID who tender their bearer shares in Bluehill ID will be rounded down to the next integer number of new shares. In lieu of fractional shares, shareholders of Bluehill ID who have tendered bearer shares in Bluehill ID will receive adequate compensation.

Table of Contents

Preparation of the Offer

To effect the Offer, SCM agreed:

to prepare and file with the Securities and Exchange Commission a Registration Statement on Form S-4, of which this proxy statement and prospectus forms a part, in accordance with the Securities Act of 1933;

to prepare and file with the BaFin, on the basis of the Registration Statement on Form S-4, a prospectus satisfying the requirements of the German Securities Prospectus Act *(Wertpapierprospektgesetz)*;

to prepare the exchange offer document (the Voluntary Public Exchange Offer) to be addressed to the shareholders of Bluehill ID, which includes the German prospectus;

to mail this proxy statement and prospectus to SCM s stockholders and publish the Voluntary Public Exchange Offer after the Securities and Exchange Commission has declared the Registration Statement on Form S-4 effective and the BaFin has approved the German prospectus;

to hold a special meeting of its stockholder to approve the Offer and, specifically, the issuance of the new shares of SCM common stock in connection with the Offer; and

to deliver to Bluehill ID a certificate signed by the CEO of SCM on behalf of SCM regarding the information provided by or on behalf of SCM for inclusion in the Registration Statement on Form S-4, the German prospectus, and the Voluntary Public Exchange Offer.

To effect the Offer, Bluehill ID agreed:

to provide such assistance and information relating to Bluehill ID and its subsidiaries as reasonably require to prepare, file and publish, as the case may be, the Registration Statement on Form S-4, the German prospectus, and the Voluntary Public Exchange Offer;

to obtain the consent of its auditor, if necessary, for the inclusion in the Registration Statement on Form S-4 and the German prospectus of Bluehill ID s audited annual financial statements for all fiscal years since its incorporation and all other relevant financial information to the extent it was reviewed by the Bluehill ID auditor; and

to deliver to SCM a certificate signed by the CEO of Bluehill ID on behalf of Bluehill ID regarding the information provided by or on behalf of Bluehill ID for inclusion in the Registration Statement on Form S-4, the German prospectus, and the Voluntary Public Exchange Offer.

Both SCM and Bluehill ID further agreed to use commercially reasonable efforts to take or cause to be taken all appropriate measures that may be required or expedient to implement the transactions contemplated by the Business Combination Agreement, to inform and consult with the other on an ongoing basis regarding the implementation of the transactions contemplated by the Business Combination Agreement and to provide each other with a reasonable opportunity to review and comment upon any material legal documents with respect to each of the steps of the contemplated transactions.

Conditions to the Closing of the Offer

The Offer is subject to the conditions precedents that:

at least 75% of all bearer shares in Bluehill ID are tendered in accordance with the terms of the Offer;

the Offer and, specifically, the issuance of new shares of SCM common stock in connection with the Offer are approved by the stockholders of SCM at SCM s special meeting;

the listing of new shares of SCM common stock on the NASDAQ Stock Market is approved; and

no event occurs that has or would have a material adverse effect on either party and their subsidiaries, taken as a whole.

Both parties agreed to use their respective commercially reasonable efforts to ensure that the Offer conditions (except for the condition that no material adverse effect occurs) are satisfied as soon as reasonably practicable and in any event upon expiration of the Offer. Until the end of the last business day prior to the expiration of the Offer, SCM may waive the condition that at least 75% of the shares in Bluehill ID are tendered and the condition that there be an absence of an event that has or would have a material adverse effect. In addition, the parties agreed to use their respective commercially reasonable efforts to obtain the approval for the listing of the new shares of SCM common stock on the Frankfurt Stock Exchange as soon as reasonably practicable after the closing of the Offer.

Recommendations of the Offer by the Boards of Directors

Recommendation of the Offer by the Board of Directors of Bluehill ID

Until the earlier of the closing date of the Offer or the termination of the Business Combination Agreement, Bluehill ID agreed to authorize SCM to include in the Registration Statement on Form S-4, the German prospectus, and the Voluntary Public Exchange Offer, and to publish after the announcement of the Offer on its website, in the Swiss Official Gazette of Commerce *(Schweizerisches Handelsblatt)* and in the German electronic Federal Gazette *(elektronischer Bundesanzeiger)*, the unanimous recommendation of the board of directors of Bluehill ID that its shareholders accept the Offer, which recommendation shall be confirmed by Bluehill ID in any subsequent public statement made until the expiry of the Offer. Bluehill ID further agreed that it will not, and it will procure that its subsidiaries do not, take any action which could prevent the success of the transactions contemplated by the Business Combination Agreement, to use all commercially reasonably efforts to solicit its shareholders to tender their bearer shares in Bluehill ID to SCM in connection with the Offer, and to cooperate with SCM in order to ensure that the Offer is successful.

In case a competing tender offer for bearer shares in Bluehill ID is launched by a third party, Bluehill ID shall neither withdraw nor qualify its recommendation for the Offer by SCM, nor recommend such competing tender offer, unless the board of directors of Bluehill ID determines in good faith and in reliance on outside legal counsel and independent financial advice that such competing offer is materially more favorable to Bluehill ID and its shareholders than the Offer by SCM. In such event, Bluehill ID shall inform SCM of its determination that the competing tender offer is materially more favorable without undue delay.

Recommendation of the Offer by the Board of Directors of SCM

SCM agreed to include in the Registration Statement on Form S-4 the unanimous recommendation of the board of directors of SCM that its shareholders approve the Offer and, specifically, the issuance of the new shares of SCM common stock in connection with the Offer, which recommendation shall be confirmed by SCM in any subsequent public statement made until the expiry of the Offer. SCM further agreed to use its commercially reasonable efforts to cause the stockholders resolution to be passed before the expiry of the Offer.

Representations and Warranties

The Business Combination Agreement contains certain limited representations and warranties of the parties pertaining to them, including, among other things, with respect to: corporate matters, including organization and existence; authority to execute and perform the Business Combination Agreement; absence of insolvency and threatened insolvency; due disclosure of information to SCM s financial advisor for the preparation of its fairness opinion; due disclosure of information to the other party for due diligence purposes; the absence of conflicts with, or violation of, constitutional documents, judgments or other obligations as result of the execution or implementation of the Business Combination Agreement; necessary consents by other persons; shares, exchangeable or convertible securities, warrants or similar instruments issued by such party and its subsidiaries; and direct and indirect participations in other companies. Both SCM and Bluehill ID further agreed to reaffirm its respective representations and warranties at the closing in a certificate signed by its respective CEO on its behalf.

Certain of the representations and warranties of the parties are qualified by best knowledge. For purposes of the Business Combination Agreement, best knowledge of a fact exists whenever a member of Bluehill ID s or SCM s board of directors or an executive director of a subsidiary of Bluehill ID or SCM, as the case may be, is or should, after reasonable investigation, be aware *(kennen oder kennen müssen)* of such fact.

Table of Contents

The representations and warranties set out in the Business Combination Agreement are exclusive, except for cases of fraud and intentional misconduct. Both parties acknowledge in the Business Combination Agreement that they are not relying on and have not been induced to enter into the Business Combination Agreement on the basis of any other warranties, representations, covenants, undertakings, indemnities or statements.

In the event of any breach or non-fulfillment of any of the representations and warranties, the party in breach may be liable for putting the other party into the same position that such non-breaching party would have been in had the breach not occurred (restitution in kind, *Naturalrestitution)* within one month upon written notice of such breach. To the extent that a breaching party fails to provide restitution in kind within this one month period, it may be required to pay monetary damages to the other party in such amount as would be necessary to effect the restitution in kind. Any such indemnification obligation of a party is limited to an aggregate amount of $7,500,000.

The representations and warranties of the parties will not survive the closing of the Offer and the indemnification obligations of a party for a breach of the representations and warranties set out in the Business Combination Agreement will cease to exist once the closing of the Offer occurs. In the event of fraud or intentional misconduct, statutory indemnification obligations might nevertheless exist after closing. If no closing occurs and the Business Combination Agreement is terminated, indemnification claims based on breaches of the representations and warranties are time-barred 18-months following the termination of the Business Combination Agreement.

Conduct of Business Prior to Closing

Bluehill ID and SCM have each agreed to be bound by a variety of obligations applicable from the signing date of the Business Combination Agreement until the earlier of the closing of the Offer or the termination of the Business Combination Agreement, including:

- to conduct their respective business in the ordinary course consistent with past practice;
- to use all commercially reasonable efforts to keep the services of the current key officers and employees and to preserve their relationship with customers, suppliers and other contractual parties;
- to inform each other on a monthly basis on their respective financial situation;
- to inform each other without undue delay regarding extra-ordinary management measures and other extra-ordinary events as well as about any breach of the Business Combination Agreement;
- to abstain, unless agreed by the other party in advance in writing (such consent not to be unreasonably withheld or delayed), from:
  - issuing shares, stock options, participation rights or other convertible securities, except for stock options under SCM s 2007 stock option plan;
  - repricing or materially changing of terms and conditions of any existing stock option, share based payment obligations, participation rights or convertible loans or securities;
  - amending its certificate of incorporation or articles of association;
  - distributing dividends;

entering into merger agreements, enterprise agreements or similar agreements substantially effecting the business of a party s group;

divesting substantial parts of its or any of its subsidiaries assets, except that Bluehill ID may sell the shares of SCM common stock that it currently holds at fair market value;

guaranteeing or incurring obligations of any person other than in the ordinary cause of business;

making loans, advances and capital contributions to, or other investments in, any other person or entering into agreements relating thereto exceeding an amount of $25,000 individually or an amount of $250,000 collectively;

hiring employees with an individual annual compensation in excess of $150,000, making any changes to the terms of employment of such employees or the terms of contract of advisors, commercial agents or distributors;

entering into any transaction or performing any act which would be reasonably expected to interfere or be inconsistent with the successful completion of the transaction; and

settling any shareholder lawsuits seeking to prevent the transaction.

Bluehill ID has further agreed during the period from the signing date of the Business Combination Agreement until the earlier of the closing of the Offer or the termination of the Business Combination Agreement:

not to enter into any earn-out agreement or adopt any arrangement to issue any shares, exchangeable or convertible securities, stock or other options, warrants or similar instruments;

not to make or publish any profit forecast or prospective earnings statement that would trigger a reporting requirement under US, Swiss or German law, except as required by law;

to use all commercially reasonable efforts, and to adopt resolutions and enter into agreements with SCM and third parties, as may be required such that, after the closing of the Offer any shares, exchangeable or convertible securities, options, warrants or similar instruments issuable under the Call Option Agreement, the Earn Out Agreements and the Bluehill ID Option Plans shall cease to represent a right to acquire bearer shares in Bluehill ID and shall instead represent a right to acquire shares of SCM common stock; and

to take all such steps as reasonably requested by SCM or as may be necessary or required, if any, to comply in all material respects with all applicable laws in connection with the capital increase of Bluehill ID on December 17, 2008.

Bluehill ID also agreed to use all commercially reasonable efforts to acquire legal title to all shares in ACiG Technology Brazil Ltda. as soon as possible after the signing date.

Exclusivity

Until the earlier of either the closing of the Offer or the termination of the Business Combination Agreement, each of SCM and Bluehill ID agreed, without the prior written consent of the other party, not to:

commence or continue discussions or negotiations with any third party regarding a transaction or series of transactions which are identical or similar (with regard to the economic or legal consequences to the respective party s group) to the transactions contemplated by the Business Combination Agreement or which would result in such third party controlling the respective party;

initiate, solicit or encourage discussions with, or furnish or cause to be furnished any information to any third party regarding any license or other transfer of rights outside the ordinary course of business to customers, any equity or debt investment in a party or any of its subsidiaries or any possible sale of a party or any of its subsidiaries, including by sale of all or any significant or controlling part of the shares or assets of such party or any of its subsidiaries or by any merger or other combination involving a party or any of its subsidiaries or otherwise; or initiate discussions with any third party regarding any license or other transfer of rights or other transaction which could reasonably be expected to have a material adverse effect on the transactions contemplated by the Business Combination Agreement.

In the event that one of the parties or any of its subsidiaries is contacted by a third party regarding any of the above described transactions, such party agreed, to the extent permissible by its statutory confidentiality obligations (excluding contractual confidentiality undertakings), to inform the other party without undue delay that it has received such proposal by a third party and provide the details of such proposal including the identity of the third party.

Table of Contents

Post-Closing Corporate Governance and Restructuring

SCM has agreed to hold a meeting of its board of directors to appoint Ayman S. Ashour, the CEO of Bluehill ID, as executive chairman of SCM s board of directors and two additional members of the board of directors of Bluehill ID as designated by the CEO of Bluehill ID, as members of SCM s board of directors, in each case to be effective at the closing of the Offer. The parties further agreed to the appointment of two members of SCM s board of directors, including SCM s CEO Felix Marx, as members of the board of directors of Bluehill ID upon the request of SCM following the closing of the Offer, but in any event by Bluehill ID s next ordinary general meeting. Additionally, the parties have agreed to change the company name of SCM in order to reflect the business combination.

If SCM acquires 90% or more of the bearer shares in Bluehill ID in connection with the Offer, it may consider a squeeze-out merger of Bluehill ID under Swiss law.

Termination

The Business Combination Agreement may be terminated at any time without prejudice to any other rights:

- by mutual written consent of SCM and Bluehill ID;

- by a party if the other party has materially breached any of its representations and warranties contained in, or obligations pursuant to, the Business Combination Agreement, provided that such breach has not been cured within 14 days of receipt of written notice of such breach by the non-breaching party;

- by a party if a general or stockholders meeting of the other party or any of its subsidiaries has adopted a resolution which would materially and adversely affect or impede the transaction;

- by either party for cause *(aus wichtigem Grund)*;

- by a party if an event has occurred or occurs that has or would reasonably be expected to have a material adverse effect on the other party;

- by either party if the closing of the Offer has not occurred on or before April 30, 2010;

- by either party, if the board of directors of Bluehill ID no longer supports the Offer because it has resolved to support an offer of a third party for bearer shares in Bluehill ID which is materially more favorable to Bluehill ID and its shareholders than the Offer and SCM has not, within five business days upon receipt of a respective notice by Bluehill ID, improved the Offer in such a way that it would be unreasonable for the board of directors of Bluehill ID to further support the offer of the third party; or

- by SCM, if SCM is, prior to launching the Offer, approached by a third party regarding a takeover of SCM and SCM s board of directors resolves that such takeover is materially more favorable to SCM and its shareholders than, and inconsistent with, the transactions contemplated by the Business Combination Agreement.

The notice of termination must be received by the other party within two weeks after the terminating party obtained knowledge of the event on which the termination is based.

Effect of Termination

The Business Combination Agreement provides for the payment of a termination fee under certain circumstances:

If a termination of the Business Combination Agreement results from a breach of the Business Combination Agreement, from cause, from a material adverse effect on the other party and its subsidiaries, taken as a whole, or from no closing having occurred by April 30, 2010 and this event has been caused by the other party s or any of its subsidiaries willful *(vorsätzlich)* or grossly negligent *(grob fahrlässig)* misconduct, the terminating party is entitled to a lump sum break-up fee in the amount of $1,500,000 from the other party. In such an event, any indemnification claims under the Business Combination Agreement would remain unaffected.

If the Business Combination Agreement is terminated by either party due to a superior offer being launched for bearer shares in Bluehill ID, Bluehill ID shall pay to SCM a lump sum break-up fee in the amount of $2,000,000.

If the Business Combination Agreement is terminated by SCM due to being approached by a third party regarding a takeover offer, SCM shall pay to Bluehill ID a lump sum break-up fee in the amount of $2,000,000.

If fewer than 50% plus one of the bearer shares in Bluehill ID are tendered in connection with the Offer, Bluehill ID shall pay to SCM a lump sum break-up fee in the amount of $1,500,000.

Confidentiality; Communication

SCM and Bluehill ID have agreed that the information obtained by one party regarding the other party in the course of any investigation undertaken by a party shall be kept confidential. The parties further agreed that any press release or other written public statements with respect to the transactions contemplated by the Business Combination Agreement shall not be made without the prior consent of the other party, which shall not unreasonably be withheld or delayed, except as may be required by applicable law or regulations or requirements of any stock exchange or regulatory authority.

Costs

Each of the parties agreed to pay its own fees and expenses in connection with the Business Combination Agreement and the transactions contemplated thereby, subject to the indemnity obligations provided in the Business Combination Agreement.

Governing Law and Jurisdiction

The Business Combination Agreement is governed by the laws of the Federal Republic of Germany and the rules of arbitration of the International Chamber of Commerce (ICC).

Amendments

The Business Combination Agreement may not be amended, modified or supplemented in any manner, except by an instrument in writing specifically designated as an amendment thereto, signed on behalf of each of SCM and Bluehill ID. On October 20, 2009, SCM and Bluehill ID entered into an amendment to the Business Combination Agreement that amended, among other things, the length of the Offer period. The full text of the amendment is included in *Annex A* to this proxy statement and prospectus.

Table of Contents

CERTAIN AGREEMENTS RELATED TO THE OFFER

The following summary describes the material provisions of certain agreements that it is expected will be entered into or have been entered into in connection with, or otherwise relate to, the Offer. The rights and obligations of the parties to these agreements are governed by the express terms and conditions of such agreements, respectively, and not by this summary. This summary may not contain all of the information about these agreements that may be important to you, and is qualified in its entirety by reference to the complete text of these agreements. The Amendment to the Rights Agreement will be filed by SCM as an exhibit to a Current Report on Form 8-K following the entry into such agreement. A copy of the Confidentiality Agreement can be obtained by submitting a request to SCM. See the section entitled Where You Can Find More Information. We encourage you to read these agreements carefully and in their entirety for a more complete understanding of these agreements.

Amendment to Rights Agreement

On November 8, 2002, the SCM board of directors declared a dividend of one preferred share purchase right to purchase one one-thousandth of a share of SCM s series A participating preferred stock for each outstanding share of SCM common stock. The dividend was payable on the record date of November 25, 2002 to stockholders of record as of the close of business on that date. Certificates representing SCM common stock issued after the record date contain a notation incorporating the rights agreement by reference. The terms of the rights are governed by a preferred stock rights agreement (the Rights Agreement), dated as of November 8, 2002, between SCM and American Stock Transfer & Trust. The rights only become exercisable if a person or group of affiliated or associated persons (an Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the shares of SCM common stock then outstanding, or announces a tender or exchange offer, the consummation of which would result in ownership by a person or group of 15% or more of SCM common stock then outstanding. The Rights Agreement was amended on December 10, 2008 to provide that the merger of SCM and Hirsch would not trigger the rights.

In connection with the Offer, SCM and the rights agent plan to enter into a second amendment to the Rights Agreement to provide that neither the approval, execution or delivery of the Business Combination Agreement, nor the consummation of the transactions contemplated thereby, including the Offer, or the performance by SCM of its obligations thereunder will cause (a) the Rights (as such term is defined in the Rights Agreement) to become exercisable, (b) a Triggering Event (as such term is defined in the Rights Agreement) to occur, (c) a Shares Acquisition Date (as such term is defined in the Rights Agreement) to occur or (d) a Distribution Date (as such term is defined in the Rights Agreement) to occur. Furthermore, the second amendment will also revise the definition of Acquiring Person so that certain of Bluehill ID s shareholders will not be deemed to be an Acquiring Person as a result of the Offer.

Confidentiality Agreement

On July 3, 2009, SCM and Bluehill ID entered into a Confidentiality Agreement in connection with the proposed business combination. The Confidentiality Agreement contains standard terms and conditions relating to each party s agreement not to disclose confidential information obtained relating to the other party.

Table of Contents

INFORMATION ABOUT SCM MICROSYSTEMS

Overview

SCM Microsystems, Inc. is a global provider of security and identity solutions for secure access, secure identity and secure exchange. For organizations and individuals that need to secure their digital assets, electronic transactions and facilities, SCM provides solutions that cut costs and reduce risk and liabilities. Instead of providing only a piece of the puzzle, SCM s offerings are broad and integrated, enabling complete solutions that allow customers to turn to a single source to meet all their security and identity management challenges. SCM was founded in 1990 in Munich, Germany and incorporated in 1996 under the laws of the state of Delaware. SCM s Fourth Amended and Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on October 10, 1997, provides that SCM s purpose is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware.

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 in two market segments: Security and Identity Solutions (formerly called Secure Authentication) and Digital Media and Connectivity (formerly called Digital Media Readers).

For the Security and Identity Solutions market, SCM offers a broad range of contact, contactless and mobile smart card reader technology, access control products and digital identity and transaction platforms, as well as systems that integrate physical access control, secure data storage and transmission, digital certificates, biometrics and digital video. SCM s solutions are used in a wide variety of industries for security, identity, contactless payment, e-health and electronic government services. SCM also offers a range of smart card-based productivity solutions, which include readers and software, for small and medium-size businesses under its CHIPDRIVE brand.

For 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 s products are installed in every major industry segment and around the world. SCM s Security and Identity solutions are especially sought after in market segments requiring a higher-than-average level of security effectiveness, such as government, public utilities and other critical infrastructure, data centers, healthcare, education, communications, finance, transportation and manufacturing, as well as by security-conscious individuals. SCM sells and licenses its products through a direct sales and marketing organization, as well as through distributors, value added resellers and systems integrators worldwide. SCM s distribution partners and customers include top-tier computer manufacturers, OEMs, smart card manufacturers, security application providers, distributors, system integrators, specialized resellers and VARs, financial institutions, enterprises and government agencies. Additionally, SCM sells its CHIPDRIVE solutions through resellers and the Internet and sells its digital media readers primarily to major brand computer and photo processing equipment manufacturers.

SCM common stock is listed on the NASDAQ Stock Market in the U.S. (symbol: SCMM) and the regulated market (Prime Standard) of the Frankfurt Stock Exchange in Germany (symbol: SMY).

For additional information about SCM, see SCM s financial statements which are included with this proxy statement and prospectus.

Recent Trends and Strategies for Growth

In 2006 and 2007, SCM directed significant attention to improving the efficiency of its operations, which resulted in a reduction in expenses from previous levels, close management of continuing expenditures and ongoing reductions in product and manufacturing costs. Top line revenue growth has been more difficult to effect, as U.S. and European government programs, which comprise a significant portion of SCM s sales, have remained unpredictable in terms of timing and in some cases have experienced protracted delays.

In late 2007, SCM adopted a multi-pronged strategy for growth that includes efforts to expand and diversify its customer base, fully capture emerging market opportunities and accelerate long-term growth. A primary component of SCM s strategy is the development of a range of new contactless and near field communication (NFC) infrastructure products to enable fast growing contactless applications and services for the electronic transaction market (including payment and ticketing), government and enterprise customers. Additionally, SCM is developing and implementing programs to market its existing product offerings into new distribution channels and new geographic regions.

An additional component of SCM s growth strategy is to actively seek merger and acquisition opportunities to expand its business, reinforce its market position in targeted areas and fully leverage its strengths and opportunities, such as the acquisition of Hirsch, which was completed during the second quarter of 2009. In exchange for all of the outstanding capital stock of Hirsch, SCM paid approximately $14.2 million in cash, issued approximately 9.4 million shares of SCM common stock and issued approximately 4.7 million warrants to purchase SCM common stock as consideration in connection with the Hirsch acquisition. (Further details of the acquisition are described in Note 2 to the Consolidated Financial Statements for the period ended June 30, 2009). Following the acquisition, former Hirsch shareholders beneficially own approximately 37% of the shares of the outstanding SCM common stock, and Hirsch became Hirsch Electronics LLC, a Delaware limited liability company and wholly-owned subsidiary of SCM. SCM believes the acquisition of Hirsch supports its growth strategy, as it nearly doubled SCM s revenues, diversifies its customer base and positions SCM to better address the growing market demand for solutions that address both IT security and physical access, a trend referred to in the security industry as convergence. As the demand for the convergence of IT and physical security is most pronounced in the U.S. government sector, SCM believes its acquisition of Hirsch strengthens its position in this market, as it allows SCM to offer a full range of logical (i.e., computer) and physical access solutions, systems and services.

To ensure appropriate resources for its contactless and expansion strategies, SCM has strengthened its management team with the addition of marketing, engineering and product management professionals from the contactless industry to execute its contactless product roadmap, including the hiring of its CEO, Felix Marx, in October 2007. Additionally, as a result of the acquisition of Hirsch, Lawrence Midland, a former Hirsch director and current President of Hirsch, joined SCM s Board of Directors and became an Executive Vice President of SCM, and Douglas Morgan, a former director of Hirsch, also joined the Board of Directors of SCM. Mr. Midland, as the fourth member to SCM s executive team, brings significant expertise in the security and identity solutions market to SCM. SCM believes the expanded expertise of its management team strengthens its ability to anticipate and respond to market trends both in the traditional smart card industry and in the emerging market for contactless and converged solutions.

Additionally, SCM has adopted a more active approach to partnering with other companies that can provide complementary resources and strengths. For example, in April 2008, SCM began working with TranZfinity, Inc. (TranZfinity), a provider of e-payment transactions solutions, to develop its @MAXX family of contactless readers and to provide application services for those readers. On October 1, 2008, SCM entered into a Stock Purchase Agreement with TranZfinity, pursuant to which SCM purchased 10 million shares of TranZfinity common stock, or 33.7% of TranZfinity s outstanding shares (16.67% on a fully diluted basis), for an aggregate purchase price of $2.5 million. The transaction closed on October 2, 2008. SCM also entered into a Stockholders Agreement with TranZfinity and certain other stockholders of TranZfinity, which sets forth certain rights and privileges of SCM and the other stockholders of TranZfinity, including rights and privileges with respect to the composition of TranZfinity s board of directors.

Overview of the Market for Security and Identity Solutions

Individuals, businesses, governments and educational institutions increasingly rely upon computer networks, the Internet and intranets for information, services and entertainment. The proliferation of and reliance upon electronic data and electronic transactions has created an increasing need to protect the integrity of digital data, as well as to control access to electronic networks and the devices that connect to them. For government entities and large corporate enterprises, there is a need to restrict and manage access to shared networks and intranets to prevent loss of proprietary data. Increasingly, there also is a need to expand the capability of electronic networks to protect or restrict access to physical facilities for corporate employees or government personnel. In addition, there is a need to manage and monitor access to information stored on identification cards used in new government-driven programs around the world, such as electronic passports, driver s licenses, citizen identification and electronic

Table of Contents

healthcare cards. Finally, for consumers and online merchants or banks, there is a need to authenticate credit cardholders or bank clients for Internet-based or other electronic transactions without jeopardizing sensitive personal account information. In each of these areas, standards-based devices that easily interface with a PC or network to provide secure, controlled access to digital assets, electronic transactions and protected facilities are an easily deployed and effective solution.

The proliferation of personal computers in both the home and office, coupled with the increasing availability of personal devices that enable access to computer networks and the Internet, have created significant opportunities for electronic transactions of all sorts, including electronic payment, ticketing, e-government, electronic healthcare access and mobile banking. In government agencies and corporate enterprises, the desire to link disparate divisions or offices, reduce paperwork and streamline operations is also leading to the adoption of more computer- and network-based programs and processes. Network-based programs are also used to track and manage data about large groups of people; for example, citizens of a particular country. While the benefits of computer networks may be significant, network and Internet-based transactions also pose a significant threat of fraud, eavesdropping and data theft for both groups and individuals. To combat this threat, parties at both ends of the transaction must be assured of its integrity. Online merchants and consumers need assurance that customers are correctly identified and that the authenticity and confidentiality of information, such as a credit card number, is established and maintained. Corporate, government and other networks need security systems that safeguard the data of individuals and protect the network from manipulation or abuse, both from within and without the system.

Increasingly, large organizations such as corporations, government agencies and banks are adopting systems that protect their facilities, networks and digital data, as well as the people utilizing these assets, by authenticating each user as he or she logs on and off the network or enters or leaves or building. Authentication of a user s identity is typically accomplished by one of two approaches: passwords, which are codes known only by specific users; and tokens, which are user-specific physical devices that only authorized users possess. Passwords, while easier to use, are also less secure because they tend to be short and static, and are often transmitted without encryption. As a result, passwords are vulnerable to decoding or observation and subsequent use by unauthorized persons. Tokens range from simple thumb-sized objects to more complex devices capable of generating time-synchronized or challenge-response access codes. Certain token-based systems require both possession of the token itself and a personal identifier, such as a fingerprint or personal identification number, or PIN, to indicate that the token is being used by an authorized user. Such an approach, referred to as two-factor authentication, provides much greater security than single factor systems such as passwords or the simple possession of a token.

One example of a token used in two-factor authentication is the smart card, which contains an embedded microprocessor, memory and a secure operating system. In addition to their security capabilities, smart cards are able to store data such as account information, healthcare records, merchant coupons, still or video images and, in some cases, cash. Smart cards are typically about the size of a credit card and can easily be carried in a wallet or attached to a badge. Smaller cards designed for use with devices such as mobile phones are also increasingly being utilized. Depending on the application for which they are being used, smart cards can be designed to insert into a reader attached to a PC or other device, or can include wireless capabilities for contactless interface. Worldwide shipments of smart cards reached 4.5 billion in 2007 and are estimated to grow to nearly 5.4 billion in 2009 for applications ranging from mobile communications to corporate security to online banking, according to the European smart card industry organization, Eurosmart (Eurosmart: Report on smart card market, 2007 , Smart cards shipments, Nov. 08). Demand for readers used in conjunction with those cards is also expected to grow. For example, research firm Frost & Sullivan estimates that the worldwide volume of smart card reader units will grow from 15.1 million in 2007 to 37.7 million in 2011 (Frost & Sullivan: World Smart Card Reader and Chipset Markets , 2007). The combination of smart cards and readers provides a secure solution for network access, personal identification, electronic commerce and other transactions where authentication of the user is critical.

Market Opportunities

The market for Security and Identity Solutions in which SCM participates is experiencing unprecedented expansion, fueled by a few major trends: First, there are an increasing number of large government initiatives throughout the world, such as the Presidential Directive on Homeland Security (HSPD-12) in the U.S., the global mandate for electronic passports, national identification programs worldwide, and electronic healthcard

(eHealth) programs in Germany, France and other European countries. Second, the demand for contactless devices that operate without a physical connection between the card and reader is also growing rapidly. Major deployments of contactless smart cards for payment, transport and electronic identification programs such as the forthcoming German national identification card, are driving growth in the market overall and compelling the industry to transition from the current environment of contact card interface to a contactless infrastructure. Third, NFC, a wireless connectivity technology that enables convenient short-range communications between electronic devices, is expected to become widely used on a global basis to enable contactless applications from mobile phones. This will require a major upgrade of legacy infrastructures to fully enable NFC applications such as payment, ticketing and customer loyalty/reward programs, and will create new markets for contactless infrastructure and NFC tokens.

Government Initiatives

In countries around the world, local and federal governments are utilizing smart card technology to authenticate citizens, employees or military personnel for programs such as network or physical access control, national ID, healthcare, storing digital certificates for online transactions, residency permits and visas and driver s licenses. According to IMS Research Group, more than one billion smart cards will be used in identity programs by governments and other public bodies worldwide by 2010 (IMS Research Group: The Worldwide Market for Smart Cards and Semiconductors in Smart Cards 2006 Edition , 2006).

To date, the largest and one of the most advanced deployments of smart cards for digital security purposes has been the U.S. Department of Defense s Common Access Card (CAC) program. Beginning in October 2000, the U.S. Department of Defense has distributed more than 17 million smart cards to military personnel and contractors. These cards are being used as the standard identification credential for military personnel, and are also being used for secure authentication and network access. In compliance with HSPD-12, since late 2006, the CAC card also has served as a standard identity credential that is both secure and interoperable across all federal agencies, regardless of which agency issued the card. To satisfy the technical requirements of HSPD-12, the National Institute for Standards and Technology developed Federal Information Processing Standards Publication 201 a U.S. federal government standard specifying personal identity verification requirements for federal employees and contractors. Under these specifications, personal identity verification cards must also include capabilities for contactless interface with security terminals at doorways and other entrances to provide secure physical access at government facilities. Additionally, identification cards issued under other government programs are also required to comply with FIPS 201, including Personal Identity Verification (PIV) cards, Transportation Worker Identification Credential (TWIC) cards, First Responder Authentication Credential (FRAC) cards, or Aviation Credential Interoperable Solution (ACIS) cards.

These new card types must be read by new readers and sometimes new complete access control systems. In order to comply with HSPD-12, government facilities are replacing their existing access control credentials with personal identity verification cards and their existing CAC card readers with new FIPS 201-compliant smart card readers and access control systems. The U.S. government s decision to deploy an integrated, agency-wide, common smart card platform will continue to raise the awareness of smart card technology, and hence increase the demand for contactless smart card proximity readers in both public and private sectors, according to IMS Research Group.

Internationally, countries around the world have been working together under the auspices of the International Civil Aviation Organization over the last several years to define and develop standards for electronic passports based on contactless smart card technology. The goal of the program is to ensure that these e-passports cannot be copied or altered, and that the biometric facial image stored on the card could be used to positively identify the holder. With implementations beginning in 2005, more than 50 countries worldwide now issue electronic passports, including Australia, Austria, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Korea, Macao, Malaysia, the Netherlands, Russia, Singapore, Sweden, the United Kingdom and the U.S.

Countries around the world are also utilizing smart cards as identification credentials for programs such as national identification, residency and driver s licenses. Electronic identification allow governments to better control the issuance of such identification credentials while enabling cardholders to remotely access government services. Countries utilizing electronic national identification cards include Argentina, Australia, Bahrain, China, Egypt,

Table of Contents

France, Germany, Hong Kong, India, Israel, Malaysia, the Netherlands, Sweden, Thailand and the United Kingdom. Countries issuing electronic driver s licenses include Australia, Brazil, India, Japan, Singapore, Sweden and the United Kingdom.

Many governments are also evaluating or making plans to develop electronic healthcare insurance and record systems, which would include smart card-based healthcare cards for participants. Mexico, China, India, Russia and Taiwan, as well as several European countries, including Austria, Belgium, France, Germany, Hungary, Italy, Poland, Turkey and the United Kingdom, are among the countries and regions that have already deployed or will deploy electronic healthcare cards to millions of healthcare users. These cards identify the user and store insurance and medical information that can be accessed by doctors and hospitals, among others. To date, one of the largest programs under development is in Germany, where pilot tests were set up in 2007. The German government began distribution of new eHealth cards to its 82 million citizens in April 2009 and plans to put in place a corresponding network and card reader infrastructure for doctors, hospitals, pharmacies and other healthcare providers during 2009 and 2010.

Growth in the Contactless Market

With the mass deployment of electronic passport schemes on a global basis, contactless smart chip technology has proven its maturity and reliability when incorporated in secure documents. As a result other sovereign documents like national ID, driver licenses, residence permits, weapon licenses and the like are migrating to chip-based technology. The majority of new e-government implementations around the world have chosen contactless interface. Estimates from NXP Semiconductors predict that the growth of electronic identification solutions between 2006 and 2012 will be overwhelmingly contactless (an 80% growth rate) compared to a 37% growth rate for contact electronic identification.

In the financial industry, major credit card companies in many parts of the world are embracing smart card technology as a more secure way to safeguard electronic transactions and address the problems of fraud, identity theft and protection of privacy, the cost of which can be significant. The majority of credit cards issued worldwide now comply with the Europay Mastercard Visa standard for securing financial transactions using a smart card.

Along with the move to more secure chip-based payment cards, there is an increasing preference for the convenience of contactless systems to facilitate payments. In part, this is being fueled by a desire on the part of consumers to replace cash payments with electronic payments in a number of daily transactions, particularly those of small value. Over the last two years, electronic payment programs featuring cards equipped with contactless technology, such as Visa payWave and MasterCard PayPass, have become widespread in Europe and Asia and are expected to generate significant demand worldwide for smart cards and related technology going forward.

Contactless transactions are being made more convenient with the emergence of mobile phones as a logical and leading platform to enable secure electronic payments. With smart device capabilities, the mobile phone enables consumers to purchase goods and services electronically and conveniently, while ensuring security through individual authentication of the user. In effect, the mobile phone becomes an electronic wallet. Integration of contactless payment technology into mobile phones is expected to further spur demand for contactless technology over the next several years. According to the research firm Gartner Group, the number of consumers using mobile payment services via mobile phones and other devices is expected to grow from 32.9 million users in 2008 to 103.9 million in 2011 (Gartner: Dataquest Insight: Mobile Payment, 2006-2011 , 2008).

There is significant long-term opportunity for companies that can provide contactless solutions that enable mobile phones and other personal devices to support secure electronic payment and banking transactions.

Major contactless technology standards include ISO14443 A and B, MIFARE, FeliCa. In Japan, the contactless technology standard known as FeliCa is widely used for applications such as payment, transport, loyalty and mobile communications. Developed by Sony, FeliCa is the most mature contactless technology in the world today. Growth in FeliCa-enabled devices both within and beyond Japan is expected to be significant over the next several years.

Growth in the Near Field Communication (NFC) Market

As noted above, mobile phones are emerging as the preferred platform to enable contactless applications, in particular secure electronic payments. NFC is fast becoming the preferred technology to enable secure short-range wireless connectivity for mobile phones and other personal mobile devices. Based on the 13.56 Mhz frequency, NFC is a wireless connectivity technology with a short-range of one to four inches. An NFC device can communicate with both existing ISO 14443 smart cards and readers, as well as with other NFC devices, and is thereby compatible with existing contactless infrastructures already in use for public transportation and payment. According to ABI Research, the volume of NFC-enabled chipsets supporting the mobile phone market will grow from zero units in 2005 to 419 million units in 2012, an average annual growth rate of 161% (New Field Communications Semiconductor, 2007).

Demand for Smart Tokens

As a result of the major trends driving growth in secure access and authentication solutions described above, there is complementary and growing demand for small, portable tokens that bridge the gap between NFC-enabled mobile phones and a notebook or desktop PC. Smart USB tokens combine mobility with the ease of a USB interface to PCs and other computing devices and the capability to accept a smart card in either standard size or the smaller SIM card format. Such tokens secure authentication for applications including banking, payment, access control and data storage.

SCM s Security and Identity Solutions

Together with Hirsch, SCM offers one of the world s broadest ranges of contact, contactless and mobile smart card reader technology, digital identity and transaction platforms, as well as systems that integrate physical and logical access control, secure data storage and transmission, digital certificates, biometrics and digital video. SCM s solutions are used in a wide variety of industries for security, identity, contactless payment, e-health and electronic government services. Sales of SCM s Security and Identity products accounted for approximately 84% of total revenue in 2008, approximately 80% in 2007 and approximately 71% in 2006. Additional discussion of SCM s Security and Identity Solutions business is contained in the section Management s Discussion and Analysis of Financial Condition and Results of Operations of this proxy statement and prospectus.

Smart Card Readers

SCM is one of the world s leading suppliers of smart card readers for security-oriented applications. SCM s smart card readers are hardware devices that connect either externally or internally with a computer or other processing platform to verify the identity of, or authenticate, the user, and thus control access. Much like a lock works with a key, SCM s readers work with a smart card to admit or deny access to a computer or network, or to authenticate the card holder for identification and access to facilities, programs or services. They offer incremental levels of protection against unauthorized use, from simple PC Card reader devices to more complex PIN entry systems, which require both a smart card and a user s personal identification number to authenticate the user. SCM s readers are utilized to authenticate users in order to support security programs and applications for corporations, financial institutions, governments and individuals. These security programs and applications include secure network logon; personal identification for programs such as healthcare delivery, driver s licenses and electronic passports; secure mobile banking; digital signatures; and secure e-commerce.

SCM s reader devices employ an open-systems architecture that provides compatibility across a range of hardware platforms and software environments and accommodates remote upgrades so that compatibility can be maintained as the security infrastructure evolves. SCM has made significant investments in software embedded within its products to enable its smart card readers and components to read the majority of smart cards in the world, regardless of manufacturer or application. SCM s smart card readers are also available with a variety of interfaces, including biometric (fingerprint), wireless/contactless, keypad, USB, PCMCIA, ExpressCard and serial port, and offer various combinations of interfaces integrated into one device in order to further increase the level of security.

Table of Contents

SCM s smart card reader product line includes:

Contact Smart Card Readers/Writers: includes internal and external Secure Card Readers that require only a smart card to provide secure authentication and external Secure PINpad Readers with a numeric PINpad that utilize a smart card in conjunction with a personal identification code to ensure two factor authentication of the user.

Contactless Readers and Dual Interface Readers: internal and external readers that address the demand for contactless interface used in many security programs based on smart cards, for example public transport, e-banking and e-passport personalization and verification. SCM is currently working to add NFC and FeliCa functionality to its entire range of dual interface and contactless solutions.

eHealth Terminal: specifically designed to meet the requirements of the German Health Card, to support Germany s intended rollout of healthcare cards to 82 million citizens. SCM s desktop and mobile eHealth100 terminals read and operate both with Germany s current memory card-based health card as well as the new chip-based card, and is compliant for use with three different card types: the electronic health card, the health professional card, and the Secure Module Cards used for secure data communication.

ePassport Readers: designed to read all electronic passports currently in use or planned for distribution. Ranked among the highest in interoperability and versatility in international interoperability tests. SCM offers both complete ePassport readers and ePassport modules that can be incorporated into customer terminals and designs.

Mobile Readers: unconnected devices that enable secure network access and user authentication by generating one-time passwords.

Keyboard Readers: reader interfaces that are designed to be embedded into a computer keyboard at the manufacturer.

SCM s smart card readers are developed in compliance with relevant industry standards related to the applications for which they will be used, including PC/SC, Europay Mastercard Visa, FINREAD and Common Criteria. For example, many of SCM s readers, including the SCRx31 Secure Card Reader line, conform to Europay Mastercard Visa international standards for financial transactions. SCM typically customizes its smart card readers with unique casing designs and configurations to address the specific requirements of each customer.

Smart USB Tokens

SCM s @MAXX family of personal contactless tokens securely support a broad range of applications. When connected to a PC, the tokens support the establishment of a secure channel to content and services available on the PC or a remote system. Unplugged, they fully leverage existing contactless infrastructures by enabling multiple services and applications such as contactless payment, contactless public transport ticketing or access to facilities. An NFC version of the @MAXX token is designed to enable legacy infrastructures (such as PCs or point of sales terminals) to become NFC enabled devices and, for example, enable smart phones that are not equipped with NFC to become NFC-enabled mobile devices, provided there is a USB connection.

ASICs/Chip Sets

SCM s ASICs provide smart card interface capabilities for embedded platforms, such as desktop computers or keyboards. SCM offers two levels of ASICs to provide both basic smart card interface capability and support for multiple interfaces and reader devices. All of SCM s ASICs comply with all relevant security standards for applications in the smart card industry. In addition, SCM s advanced chip allows on-board flash upgrades for future firmware and application enhancements. SCM has a unique position in the market, with the ability to offer dedicated smart reader/writer, single chip solutions with embedded FLASH for secure firmware upgrade in the field (to prevent obsolescence) for its own products as well as to be integrated in PCs, keyboards and other devices.

Table of Contents

Physical Access Control Systems

Through its Hirsch business, SCM addresses the physical access control segment of the security industry. Physical access control product categories include: integrated security management systems, which typically bundle access control, badging/card production, alarm monitoring and some video features into a single package; access control software; access controllers; and keypads, readers and cards, including biometrics and smart cards. Hirsch s systems are used to manage security within an organization, including identity authentication, access control, alarm monitoring, video surveillance and recording, and employee identification card production. Hirsch s solutions help customers to enforce policies, to mitigate risk and liability, to prevent incidents, to ensure regulatory compliance, and to safeguard employees, information and assets.

Physical Access Control products and solutions include:

- *Controllers:* the DIGI*TRAC family of high security controllers;

- *Software:* the Velocity Security Management System and numerous customer-specific middleware and software applications;

- *Readers, keypads, biometrics:* includes the ScramblePad family of high security keypad and keypad plus reader devices, smart card and biometric readers, such as the Verification Station, ScrambleSmartProx and PACT, and others;

- *Smart cards, proximity cards:* includes cards, fobs and other credential-carrying tokens;

- *Identity management solutions:* includes identity and credential management system software, card management software, smart cards, biometric devices, photo badges, printers and middleware to enable interoperability links to outside watch lists and other database services;

- *Video, CCTV:* includes cameras, DVR, NVR and video management software; and

- *Accessories:* includes products such as scanners, power-over-Ethernet (PoE) injectors and fiber optic transceivers.

Hirsch Professional Services

Hirsch employs a team of IT professionals with expertise in *.NET*, *.HTML*, Java, C#, Visual Basic, databases, networking and other technologies to design, develop and deliver a variety of customized solutions. This Professional Services Group delivers services and solutions including:

- planning and deployment;

- migrations and upgrades;

- middleware and programs to enable interoperability and functionality with other applications, databases and systems such as human resources, directory services (PC/network log-on), provisioning, command & control, central station, parking, elevators, HVAC, lighting, other devices and, other databases;

- redundant and fault-tolerant configurations;

- specialized configurations for the mega-enterprise;
- web browser-based solutions;
- compliance-related features and reports; and
- customized functionality in any Hirsch offering, most typically access control and identity management.

CHIPDRIVE Productivity Solutions

SCM offers several CHIPDRIVE packages, consisting of smart cards, readers and software applications, for small and medium-sized businesses. These products support applications such as smart card-enabled logon to Microsoft Windows and smart card-based, secure electronic time recording.

Table of Contents

Overview of the Market for Digital Media Connectivity Solutions

Digital cameras have rapidly saturated the consumer market over the last few years, with 80% of U.S. households predicted to own a digital camera by 2010, according to Gartner Group (Gartner: Forecast: Digital Still Cameras, United States, 2006-2010 , 2006). Camera phones have also gained rapid popularity; in fact, 15% of consumers declare their phones to be their primary picture-taking device, according to an October 2007 survey from InfoTrends (InfoTrends: U.S. Camera Phone End-User Survey Research: 2007 , 2007). InfoTrends estimates that U.S. output of digital photo prints will grow from 13.2 billion prints in 2005 to 16 billion by 2009 (InfoTrends: U.S. Consumer Photo Prints Forecast: 2006-2011 , 2007). Digital flash media cards, which store digital images on the majority of digital cameras and some camera phones, are a key driver behind digital print growth. Higher capacity memory cards allow digital camera users to take more pictures before having to download images or swap out the card. As card capacities increase, more time is needed to download images. This uses more of the camera s battery life, which already may be insufficient for many camera owners. To print without draining the camera battery, the digital flash media card can be removed and inserted into a card reader on a PC, printer or kiosk to download and print images. It also requires more time as transferring directly from a camera is significantly slower than that of direct digital media transfers via a card reader.

Retail photo kiosks and mini-labs, which give instant, high-quality printouts of digital images, make printing photos more convenient and less costly for the consumer and typically provide higher quality prints than home printers. As flash memory card capacities increase and digital cameras continue to proliferate, SCM believes consumers will increasingly use photo kiosks and mini-labs to download and print their digital pictures. Each photo kiosk or mini-lab requires a variety of media card readers to download images from the various media cards in use in digital cameras on the market.

SCM s Digital Media and Connectivity Products

SCM offers digital media readers that provide an interface to the various formats of digital media cards to download digital images and other content. SCM sells its digital media readers primarily to photo kiosk manufacturers and integrators. SCM s digital media readers allow photo kiosk makers and others to build digital flash media interface capabilities into their products and provide interface capabilities for all major memory card formats, including PCMCIA I and II, CompactFlash I and II, MultiMediaCard, MMCplus, MMCmobile, RS-MMC, Secure Digital Card, miniSD, MicroSD, SmartMedia, Sony Memory Stick and xD-Picture Card. SCM has also developed a firmware that will allow all of its readers to read the new Sandisk Write Once Read Many (WoORM) media, which cannot be altered or deleted and is designed for information that must be kept intact, such as electronic voting records and law enforcement work. Sales of SCM s Digital Media and Connectivity products accounted for approximately 16% of total revenue in 2008, approximately 20% in 2007 and approximately 29% in 2006. Additional discussion of SCM s Digital Media and Connectivity business is contained in the section Management s Discussion and Analysis of Financial Condition and Results of Operations of this proxy statement and prospectus.

SCM s digital media readers leverage SCM s interface chips to enable each reader slot to read multiple types of cards. SCM s digital media reader product line includes:

> *Preconfigured Drives:* SCM s 3.5 inch 5-bay and 6-bay drives provide plug-and-play interface for photo kiosks and mini labs. Marketed as Professional Card Drive (PCD) or Modular (gMOD, LMOD and PCD-zMOD) readers, these drives are designed to support heavy commercial usage and support multiple media card formats in either an integrated or a modular form factor.
>
> *Single Board Drives:* SCM s single board drives provide flexible interface solutions for print kiosks, photo labs and other applications requiring digital flash media interface. Single board drives can be configured using any

combination of media interface and drive placement to address the specific requirements of each kiosk or other product environment.

Technology

Many of the markets in which SCM participates are in their early stages of development and it is expected that they will continue to evolve. For example, early markets typically require complete hardware solutions, but over time requirements shift to critical components such as silicon or software as OEM customers increase their knowledge and sales volumes of the technologies being provided. SCM is committed to developing products using standards compliant technologies. SCM s core technologies, listed below, leverage SCM s development efforts to benefit customers across product lines and markets.

Silicon Strategy

SCM has implemented a number of core interface and processing technologies into its silicon chips. SCM has also selected what it believes to be the best available silicon from outside suppliers based on desired functionality, and has embedded its core interface and processing technologies in order to meet time-to-market requirements. 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 expects to continue to maintain a balance between its own silicon and the use of third-party devices.

Firmware and Drivers

For SCM s smart card reader products, including both contact and contactless readers, SCM has developed interface technology that provides interoperability between PCs and smart cards from many different smart card manufacturers and with many different operating systems. SCM s interoperable architecture includes an International Standards Organization-compliant layer as well as an additional layer for supporting non-International Standard Organization-compliant smart cards. Through proprietary integrated circuits and firmware, SCM s smart card readers can be updated electronically to accommodate new types of smart cards without the need to change the reader s hardware. For SCM s Digital Media and Connectivity products, SCM has developed interface technology that provides interoperability and compatibility between various digital appliances, computer platforms and flash memory cards. For complex terminals for electronic healthcare and other markets, SCM has chosen to use Linux-based embedded firmware, which helps to provide the base layers for writing higher levels of application software. All SCM products are offered with the necessary device drivers for major operating systems, including Microsoft Windows, Windows Vista, Linux and MAC OS. Hirsch has developed proprietary firmware for its controllers that provides enhanced security and decreases instances of product obsolescence.

Complete Hardware Solutions

SCM provides complete hardware solutions for a range of secure digital access applications, and can customize these solutions in terms of physical design and product feature set to accommodate the specific requirements of each customer. For example, SCM has designed and manufactured smart card readers that incorporate specific features, such as a transparent case and removable USB cable, to address the needs of specific OEM customers.

Customers

SCM s Security and Identity Solutions customers are primarily in market segments requiring a higher-than-average level of security effectiveness, including government, large enterprises, public utilities and other critical infrastructure, data centers, healthcare, education, communications, finance, transportation and manufacturing. SCM s Digital Media and Connectivity customers are primarily manufacturers of photo processing equipment. Prior to its merger with Hirsch, sales to a relatively small number of customers historically accounted for a significant percentage of SCM s total sales. Sales to SCM s top ten customers accounted for approximately 58% of revenue in fiscal year 2008, 61% of revenue in fiscal year 2007 and 53% of revenue in fiscal year 2006. In 2008, Tx Systems, Inc and Flextronics America, LLC (formerly Solectron) each accounted for more than 10% of revenue. In 2007, Envoy Data Corporation accounted for more than 10% of revenue. In 2006, Flextronics America, LLC accounted for more than 10% of revenue. In its Hirsch business, the top ten customers for the fiscal year ended November 30, 2008 accounted for approximately 30% of Hirsch s revenue. In the future, SCM expects that the diversity of the customer base in its Hirsch business will substantially offset the dependence it has on a limited number of customers in its other business areas. However, the loss or reduction of orders from a significant customer, including losses or reductions due to manufacturing, reliability or other difficulties associated with its products, changes in customer buying patterns, or market, economic or competitive conditions in the digital information security business, could still impact SCM s business and operating results.

Sales and Marketing

For the majority of its products, SCM utilizes a multi-tiered sales organization consisting of OEMs, distributors, dealers/system integrators, value added resellers, resellers and Internet sales. SCM s sales staff solicits prospective channel partners and customers, provides technical advice and support with respect to its products and works closely with customers, distributors and OEMs. In its Hirsch business, the majority of sales are made through Hirsch-authorized dealers (also known as integrators, value added resellers, installers, and partners) who in turn resell and install the products. Hirsch dealers sign agreements with Hirsch and are trained by Hirsch personnel. The Hirsch Professional Services Group sells both through Hirsch-authorized dealers and also directly to customers and dealers, when appropriate. The Hirsch Government Programs Group focuses on marketing efforts aimed at top-level contacts at federal agencies. Additionally, Hirsch sells both direct and through a distributor to a very small number of sensitive federal government customers. In support of its sales efforts, SCM participates in trade shows and conducts sales training courses, targeted marketing programs and advertising, and ongoing customer and third-party communications programs. As of June 30, 2009, SCM had 89 full-time employees engaged in sales and marketing activities.

Backlog

SCM typically does not 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. Sales are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time. SCM s customer contracts generally do not require fixed long-term purchase commitments. In view of order and shipment patterns, and because of the possibility of customer changes in delivery schedules or cancellation of orders, SCM does not believe that such agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

Collaborative Industry Relationships

SCM is a contributor in various national and global standardization bodies and industry consortia, and is party to collaborative arrangements with a number of third parties. SCM evaluates, on an ongoing basis, potential strategic alliances and intends to continue to pursue such relationships. SCM s future success will depend in part on the success of its current arrangements and its ability to establish additional arrangements. These arrangements may not result in commercially successful products.

BITKOM. SCM is a member of BITKOM, the German Federal Association for Information Technology, Telecommunications and New Media. BITKOM represents more than 1,300 companies, including Germany s largest global corporations as well as 600 key midsize companies. BITKOM s membership generates a sales volume of 135 billion annually and exports 50 billion worth of technology each year, representing 90 percent of the German technology market.

NETC@RDS. SCM is a member of the NETC@RDS initiative, which is devoted to establishing improved health care access and administration procedures for mobile citizens in the European Union (EU), using the electronic European Health Insurance Card. SCM is a technology provider to the NETC@RDS project and has participated in market validation tests which included 85 pilot sites in 10 EU member states.

NFC Forum. SCM is an associate member of the NFC Forum, a non-profit industry association whose mission is to advance the use of NFC technology by developing specifications, ensuring interoperability among devices and services, and educating the market about NFC technology, which is a type of radio frequency technology that allows for secure transference of data between a card and reader over distances of not more than a few inches, and is an important technology for contactless payment applications. The NFC

Forum consists of 150+ global member companies, including leading mobile communications, semiconductor and consumer electronics firms. NFC Forum members are currently developing specifications for a modular NFC device architecture, protocols for interoperable data exchange and device-independent service delivery, device discovery, and device capability.

PCMCIA. SCM is a member of the Personal Computer Memory Card International Association, or PCMCIA, an international standards body and trade association with more than 100 member companies. SCM has been a member of PCMCIA since 1990. PCMCIA was founded in 1989 to establish standards for integrated circuit cards and to promote interchangeability among mobile PCs.

PC/SC Workgroup. SCM is an associate member of the PC/SC workgroup, a consortium of technology companies that seeks to set the standard for integrating smart cards and smart card readers into the mainstream computing environment.

Security Industry Association (SIA). Hirsch is a contributing member of SIA, the leading trade group for businesses in the electronic and physical security market.

Share Security Formats Cooperation (SSFC). SCM is a customer partner of SSFC, an alliance of leading Japanese technology companies that aims to establish a securely shared new data format for contactless smart cards, enabling multiple security applications to be managed using a single smart card.

Silicon Trust. SCM is a member of Silicon Trust, an industry forum sponsored by Infineon Technologies that focuses on silicon based security solutions, including smart cards, biometrics, and trusted platforms.

Smart Card Alliance. SCM is a member of the Smart Card Alliance, a U.S.-based, multi-industry association of member firms working to accelerate the widespread acceptance of multiple applications for smart card technology. SCM also is a member of Smart Card Alliance s Leadership Council.

Teletrust. SCM is a member of Teletrust, a German organization whose goal is to provide a legally accepted means to adopt digital signatures. Digital signatures are encrypted personal identifiers, typically stored on a secure smart card, which allow for a high level of security through internationally accepted authentication methods. SCM also is a member of the smart card terminal committee of Teletrust, which defines the standards for connecting smart cards to computers for applications such as secure electronic commerce over the Internet.

Digital Media Associations. SCM is a member of several digital flash media card organizations, including CompactFlash Association, Memory Stick Developers Forum, MultiMediaCard Association, SD Card Association, SSFDC SmartMedia Forum, xD-Picture Card Forum, Photo Marketing Association International and USB Implementers Forum.

Research and Development

SCM has made substantial investments in research and development, particularly in the areas of smart card-based physical and network access devices and digital connectivity and interface devices. In the Hirsch business, SCM currently is developing a next-generation line of controllers, readers and security management software that better addresses the requirements of, and appeals to, the IT personnel who increasingly are responsible for selecting access control suppliers. SCM s engineering design teams work cross-functionally with marketing managers, applications engineers and customers to develop products and product enhancements to meet customer and market requirements. SCM also strives to develop and maintain close relationships with key suppliers of components and technologies in order to be able to quickly introduce new products that incorporate the latest technological advances. SCM s future success will depend upon its ability to develop and to introduce new products that keep pace with technological developments and emerging industry standards while addressing the increasingly sophisticated needs of its customers.

SCM focuses the bulk of its research and development activities on the development of products for new and emerging market opportunities. Research and development expenses were approximately $3.9 million for the year ended December 31, 2008, $3.1 million for the year ended December 31, 2007 and $3.8 million for the year ended December 31, 2006. As of June 30, 2009, SCM had 79 full-time employees engaged in research and development activities, including software and hardware engineering, testing and quality assurance and technical documentation. The majority of SCM s research and development activities for smart card reader and digital media reader products occur in India and the majority of research and development activities for Hirsch products occurs in California.

Investments

In 2006 and 2007 SCM invested mainly in the replacement of computer hardware and spent $0.1 million in 2006 and $0.2 million in 2007. In 2008 SCM invested in total $3.3 million on the purchase of a 33.7% stake in TranZfinity and entering into an exclusivity agreement with TranZfinity. An additional amount of $0.4 million had been spent for the replacement of machinery. All investments in the years 2006 to 2008 were financed from existing cash.

During the second quarter of 2009, SCM completed the acquisition of Hirsch. In exchange for all of the outstanding capital stock of Hirsch, SCM paid approximately $14.2 million in cash, which were financed from existing cash, issued approximately 9.4 million shares of SCM common stock and issued approximately 4.7 million warrants to purchase SCM common stock as consideration in connection with the Hirsch acquisition.

The proposed acquisition of a majority of the bearer shares in Bluehill ID is the only future investment to which SCM is currently bound.

Manufacturing and Sources of Supply

SCM utilizes the services of contract manufacturers in Singapore and China to manufacture its smart card reader and digital media reader products and components. SCM s Hirsch business manufactures most of its products in California, using locally sourced components. SCM is certified to the ISO 9001:2000 quality manufacturing standard. SCM has implemented a global sourcing strategy that it believes enables SCM to achieve economies of scale and uniform quality standards for its products, and to support gross margins. In the event any of SCM s contract manufacturers are unable or unwilling to continue to manufacture its products, SCM may have to rely on other current manufacturing sources or identify and qualify new contract manufacturers. Any significant delay in SCM s ability to obtain adequate supplies of its products from current or alternative sources would harm its business and operating results.

SCM believes that its success will depend in large part on its ability to provide quality products and services while ensuring the highest level of security for its products during the manufacturing process. SCM has a formal quality control program to satisfy its customers requirements for high quality and reliable products. To ensure that products manufactured by others are consistent with its standards, SCM manages all key aspects of the production process, including establishing product specifications, selecting the components to be used to produce its products, selecting the suppliers of these components and negotiating the prices for certain of these components. In addition, SCM works with its suppliers to improve process control and product design. As of June 30, 2009, SCM had 30 full-time employees engaged in manufacturing and logistics activities, focused on coordinating product management and supply chain activities between SCM and its contract manufacturers.

On an ongoing basis, SCM analyzes the need to add alternative sources for both its products and components. Even so, SCM relies upon a limited number of suppliers for some key components of its smart card reader 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.

Wherever possible, SCM has added additional sources of supply for mechanical components such as printed circuit boards or casing. However, a risk remains that SCM may be adversely impacted by an inadequate supply of components, price increases, late deliveries or poor component quality. Additionally, components may not be available in a timely fashion or at all, particularly if larger companies have ordered more significant volumes of the components, and if demand is great, higher prices may be charged for components. Disruption or termination of the supply of components or software used in SCM s products could delay shipments of its products, which could have a material adverse effect on SCM s business and operating results. These delays could also damage relationships with current and prospective customers.

Table of Contents

In the Hirsch business, most component parts used in Hirsch products are standard, off-the-shelf items, which are, or can be, purchased from two or more sources. Because Hirsch has been building its core products for several years, there are a few parts that have reached end-of-life status. Hirsch has been able to continue to source those parts, but continued availability and pricing of older components in the future is not guaranteed. To mitigate this risk, Hirsch is designing new products that also will use standard off-the-shelf parts that are all expected to be in production for a greater number of years in the future.

A significant portion of Hirsch s revenue is derived from the resale of cards and card readers from HID. If that supply were to be disrupted, Hirsch would be adversely affected. Hirsch resells Dell computers and servers, and disruption of that supply would adversely affect it. Hirsch out-sources the stuffing of printed circuit boards to local manufacturers. The bulk of that out-sourcing is to a single company, and disruptions within that company would adversely affect Hirsch. There are numerous similar manufacturing companies within southern California, so any disruption could likely be mitigated within a reasonable time.

Competition

The Security and Identity Solutions and Digital Media and Connectivity markets are competitive and characterized by rapidly changing technology. SCM believes that competition in these markets is likely to intensify as a result of anticipated increased demand for digital access products. SCM currently experiences competition from a number of sources, including:

Products or Solutions	Primary Competitors
Smart card readers, ASICs and universal smart card reader interfaces for PC and network access	Advanced Card Systems, Gemalto (formerly Gemplus and Axalto), O2Micro and OmniKey
Enterprise-class physical access control systems	AMAG (owned by G4Tec), GE Security, Honeywell, Lenel (owned by United Technologies) and Software House (owned by Tyco)
Physical access control terminals and systems	AMAG Technology, Apollo Security Sales, Inc., Bioscrypt, BridgePoint Systems, Brivo, Continental Access (owned by NAPCO Security Systems, Inc.), DSX, HID (owned by ASSA ABLOY), Integrated Engineering, Johnson Controls, Keri Systems, Inc., MDI, Inc., Paxton, PCSC, Precise Biometrics, S2 Security Corporation, XceedID and XTec
Digital media readers	Atech, Datafab, OnSpec and YE Data

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. 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 secure authentication and digital media transfer products may ultimately be dominated by approaches other than the approach marketed by SCM. SCM believes that the principal competitive factors affecting the market for its products include:

- the extent to which products must support industry standards and provide interoperability;
- the extent to which standards are widely adopted and product interoperability is required within industry segments;

technical features;

quality and reliability;

the ability of suppliers to develop new products quickly to satisfy new market and customer requirements;

ease of use;

strength of distribution channels; and

price.

Table of Contents

While SCM believes that it competes favorably with respect to these factors, it may not be able to continue to successfully compete due to these or other factors. Competitive pressures facing SCM could materially and adversely affect SCM s business and operating results.

Proprietary Technology and Intellectual Property

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. Additionally, the Hirsch business utilizes Intellectual Property Infringement Abatement Insurance to partially mitigate the risk of infringement of its primary patent. Although SCM often seeks to protect its proprietary technology through patents, it is possible that no new patents will be issued, that SCM s proprietary products or technologies are not patentable, and 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 there is no assurance that SCM would 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 U.S. Because many of SCM s products are sold and a substantial portion of its business is conducted outside the U.S., 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, duplicate its products or design around its patents or other intellectual property rights. If SCM is unsuccessful in protecting its intellectual property or its products or technologies are duplicated by others, SCM s business could be harmed.

In addition, SCM has from time to time received claims that it is infringing upon third parties intellectual property rights. Future disputes with third parties may arise and these disputes may not be resolved on terms acceptable to SCM. As the number of products and competitors in SCM s target markets grow, the likelihood of infringement claims also increases. Any claims or litigation may be time-consuming and costly, divert management resources, cause product shipment delays, or require SCM to redesign its products, accept product returns or to write off inventory. Any of these events could have a material adverse effect on SCM s business and operating results.

SCM owns approximately 30 patent families (designs, patents and utility models) comprising a total of 100 individual or regional filings, covering products, mechanical designs and ideas for its Security and Identity Solutions and Digital Media and Connectivity businesses. None of SCM s patents are material to its business. Additionally, SCM leverages its own ASIC designs for smart card interface in its reader devices.

Employees

As of June 30, 2009, SCM had 227 full-time employees, of which 79 were engaged in engineering, research and development; 89 were engaged in sales and marketing; 30 were engaged in manufacturing and logistics; and 29 were engaged in general management and administration. SCM is not subject to any collective bargaining agreements and, to SCM s knowledge, none of its employees are currently represented by a labor union. To date, SCM has experienced no work stoppages and believes that its employee relations are generally good.

Foreign Operations; Properties

SCM operates globally, with corporate headquarters in Santa Ana, California and European corporate offices in Ismaning, Germany. SCM also maintains regional sales offices in Washington DC, Tokyo, Hong Kong and Milan. SCM considers these properties as adequate for its business needs.

Table of Contents

Legal Proceedings

From time to time, SCM could become subject to claims arising in the ordinary course of business or could be a defendant in lawsuits. While the outcome of such claims or other proceedings cannot be predicted with certainty, SCM s management expects that any such liabilities, to the extent not provided for by insurance or otherwise, will not have a material adverse effect on its financial condition, results of operations or cash flows.

Except for the legal proceeding described below SCM is not currently or was in the past twelve months a party to any pending legal, governmental or arbitration proceeding, nor is or was in the past twelve months SCM s property the subject of any pending legal, governmental or arbitration proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of SCM s business nor is SCM aware that such proceedings are threatened.

On March 18, 2009, Secure Keyboards, Ltd. and two of its general partners, Luis Villalobos and Howard B. Miller, filed suit in Los Angeles Superior Court against SCM, Felix Marx, and Hirsch, alleging multiple causes of action, including interference with contract, in connection with the prospective merger of SCM and Hirsch and a 1994 settlement agreement entered into among Secure Keyboards, Hirsch and Secure Networks, Ltd. (the 1994 Settlement Agreement). On April 8, 2009, SCM, Felix Marx, Secure Keyboards, Ltd., Secure Networks, Ltd., each of the respective general partners of Secure Keyboards and Secure Networks, and Hirsch, entered into a settlement agreement, pursuant to which the parties resolved the disputes that have arisen between them relating to the proposed merger of SCM and Hirsch and the 1994 Settlement Agreement (the 2009 Settlement Agreement). Pursuant to the 2009 Settlement Agreement, Secure Keyboards, Luis Villalobos and Howard B. Miller dismissed their suit, and Secure Keyboards, Secure Networks and Hirsch have also amended and restated their 1994 Settlement Agreement to replace the royalty-based payment arrangement under the agreement with a new, definitive installment payment schedule, which consists of an annual payment by Hirsch to Secure Keyboards and Secure Networks of $986,000, beginning in 2009, with subsequent annual payments subject to increase based on the percentage increase in the Consumer Price Index during the prior calendar year.

SCM S MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of SCM s financial condition and results of operations should be read together with Selected Historical and Pro Forma Combined Financial Data Selected Historical Financial Data of SCM and the SCM financial statements and related notes as well as the risk factors set forth under the caption Risks Relating to SCM s Business appearing elsewhere in this proxy statement and prospectus. The historical financial data for SCM is based on the unaudited consolidated financial statements as of and for the six months ended June 30, 2009, as well as the audited consolidated financial statements of SCM as of and for the fiscal year ended December 31, 2008. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Overview

Company Background

SCM is a global provider of security and identity solutions for secure access, secure identity and secure exchange. For organizations and individuals that need to secure their digital assets, electronic transactions and facilities, SCM provides solutions that cut costs and reduce risk and liabilities. Instead of providing only a piece of the puzzle, SCM s offerings are broad and integrated, enabling complete solutions that allow customers to turn to a single source to meet all their security and identity management challenges. SCM was incorporated in 1996 under the laws of the state of Delaware.

SCM s products are installed in every major industry segment and around the world. SCM s solutions are especially sought after in market segments requiring a higher-than-average level of security effectiveness, such as government, public utilities and other critical infrastructure, data centers, healthcare, education, communications, finance, transportation and manufacturing, as well as by security-conscious individuals. SCM s distribution partners and customers include top-tier computer manufacturers, OEMs, smart card manufacturers, security application providers, distributors, system integrators, specialized resellers and VARs, financial institutions, enterprises and government agencies.

SCM sells its security and identity solutions in two primary market segments: Security and Identity Solutions (formerly called Secure Authentication) and Digital Media and Connectivity.

For the Security and Identity Solutions market, SCM offers a broad range of contact, contactless and mobile smart card reader technology, access control products and digital identity and transaction platforms, as well as systems that integrate physical access control, secure data storage and transmission, digital certificates, biometrics and digital video. SCM s solutions are used in a wide variety of industries for security, identity, contactless payment, e-health and electronic government services. SCM also offers a range of smart card-based productivity solutions, which include readers and software, for small and medium-size businesses under its CHIPDRIVE brand.

For 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 common stock is traded on the NASDAQ Stock Market in the U.S. (symbol: SCMM) and the regulated market (Prime Standard) of the Frankfurt Stock Exchange in Germany (symbol: SMY).

Highlights of the Second Quarter, Ending June 30, 2009

Highlights of the second quarter, ending June 30, 2009, included, among others, the following:

SCM completed its acquisition of Hirsch on April 30, 2009, and consolidated it as a wholly-owned subsidiary. Financial results for the current quarter therefore include two months of results related to the Hirsch acquisition (May 1 through June 30, 2009).

Net revenue rose to $11.0 million, a substantial increase compared to the same quarter a year earlier due primarily to new revenue from the Hirsch subsidiary.

Table of Contents

Organic growth in SCM s main Security and Identity Solutions business included record sales in Asia (excluding Japan) and higher sales of smart card reader products in the U.S. Organic growth excludes the sales of the acquired Hirsch business.

SCM s gross profit margin increased in the second quarter, due primarily to an improved product mix as a result of the Hirsch acquisition.

On a continuing basis, SCM overall posted an after-tax loss of $(0.6) million compared to a loss of $(2.0) million in the prior-year quarter. The loss in the current period includes transaction expenses related to the Hirsch acquisition, offset by a $1.7 million tax benefit related to the accounting for taxes following the Hirsch acquisition. Net loss for the quarter was $(0.5) million.

Cash and cash equivalents at the end of the quarter were $5.3 million, after substantial net cash outflows associated with the Hirsch acquisition.

Narrative Summary of the 2009 Second Quarter

During the second quarter, SCM completed its acquisition of Hirsch and consolidated it as a wholly-owned subsidiary. The acquisition closed on April 30, 2009. Financial results for SCM for the quarter therefore include two months of results from the Hirsch subsidiary. As expected, this acquisition substantially increased SCM s net revenue, which came in 68% higher than in the second quarter of 2008. Focused business development programs enabled SCM to achieve growth in existing businesses as well. While overall sales excluding Hirsch were down slightly year on year, sales of smart card reader products rose 12%, with record sales in Asia (excluding Japan) and higher sales in the U.S. offsetting declines in Europe and Japan.

The Hirsch acquisition had a strong influence on other financial results for the quarter as well. SCM s overall gross margin rose to 51% from 43% in the prior-year quarter, as SCM s revenue mix improved due to inclusion of higher-margin products from the Hirsch subsidiary. At the same time, operating expenses were 45% higher than in the second quarter a year earlier, primarily due to the inclusion of operating expenses for Hirsch, as well as $0.5 million in transaction expenses related to the acquisition. Aside from the Hirsch and transaction-related expenses, operating expenses decreased both sequentially and year over year across all major categories. SCM also recorded a tax benefit of $1.7 million in the second quarter related to the release of a valuation allowance on deferred tax assets following the Hirsch acquisition. As a result, SCM posted an after-tax loss of $(0.6) million from continuing operations in the second quarter, compared to a loss of $(2.0) million in the prior-year period.

SCM s net loss for the quarter was $(0.5) million, compared to $(1.5) million in the prior-year period, which benefited from $0.5 million in gains on sales of discontinued operations. Cash and cash equivalents were $5.3 million at the end of the quarter, significantly lower than in the prior-year period due in part to a $14.2 million cash payment for Hirsch, partly offset by $3.3 million in cash acquired.

SCM achieved significant progress in integrating the Hirsch acquisition during the second quarter, with a particular focus on sales and marketing activities so as to maintain its momentum with regard to acquiring new customers and establishing new products in target markets. SCM completed the move of its headquarters to Hirsch s location in Santa Ana, California in the third quarter of 2009.

Recent Trends and Strategies for Growth

SCM has adopted a multi-pronged strategy for growth that includes efforts to expand and diversify its customer base, fully capture emerging market opportunities and accelerate long-term growth. A primary component of SCM s strategy is the development of a range of new contactless and near field communication (NFC) infrastructure products to enable fast growing contactless applications and services for the electronic transaction market (including payment and ticketing), government and enterprise customers. Additionally, SCM is developing and implementing programs to market its existing product offerings into new distribution channels and new geographic regions. The worldwide recession has slowed SCM s progress in penetrating new markets; however, SCM continues to have a high level of activity to develop new customers.

An additional component of SCM s growth strategy is to actively seek merger and acquisition opportunities to expand its business, reinforce its market position in targeted areas and fully leverage its strengths and opportunities, such as the acquisition of Hirsch, which was completed during the second quarter of 2009. SCM believes the acquisition of Hirsch supports its growth strategy, as it nearly doubles SCM s revenues, diversifies its customer base and positions SCM to better address the growing market demand for solutions that address both IT security and physical access, a trend referred to in the security industry as convergence. As the demand for the convergence of IT and physical security is most pronounced in the U.S. government sector, SCM believes its acquisition of Hirsch strengthens its position in this market, as it allows SCM to offer a full range of logical (i.e., computer) and physical access solutions, systems and services.

To ensure appropriate resources for its contactless and expansion strategies, SCM has strengthened its management team with the addition of marketing, engineering and product management professionals from the contactless industry to execute its contactless product roadmap, including the hiring of its CEO, Felix Marx, in October 2007. Additionally, as a result of the acquisition of Hirsch, SCM has added a fourth member to its executive team. Lawrence Midland, President of Hirsch, brings significant expertise in the security and identity solutions market to SCM. SCM believes the expanded expertise of its management team strengthens its ability to anticipate and respond to market trends both in the traditional smart card industry and in the emerging market for contactless and converged solutions.

Additionally, SCM has adopted a more active approach to partnering with other companies that can provide complementary resources and strengths. For example, in April 2008, SCM began working with TranZfinity, a provider of e-payment transactions solutions, to develop its @MAXX family of contactless readers and to provide application services for those readers. On October 1, 2008, SCM entered into a Stock Purchase Agreement with TranZfinity, pursuant to which SCM purchased 10 million shares of TranZfinity common stock, or 33.7% of TranZfinity s outstanding shares (16.67% on a fully diluted basis), for an aggregate purchase price of $2.5 million. The transaction closed on October 2, 2008. SCM also entered into a Stockholders Agreement with TranZfinity and certain other stockholders of TranZfinity, which sets forth certain rights and privileges of SCM and the other stockholders of TranZfinity, including rights and privileges with respect to the composition of TranZfinity s board of directors.

On April 30, 2009, SCM completed the acquisition of Hirsch, a private California corporation that manufactures and sells physical access control and other security management systems. Following the acquisition, Hirsch became a Delaware limited liability company and wholly-owned subsidiary of SCM. In exchange for all of the outstanding capital stock of Hirsch, SCM paid approximately $14.2 million in cash, issued approximately 9.4 million shares of SCM common stock and issued approximately 4.7 million warrants to purchase SCM common stock as consideration in connection with the Hirsch acquisition. (Further details of the acquisition are described in Note 2 to the consolidated Financial Statements for the period ended June 30, 2009). Following the acquisition, former Hirsch shareholders beneficially own approximately 37% of the shares of SCM common stock outstanding. As mentioned above, Lawrence Midland, a former Hirsch director and current President of Hirsch, joined SCM s Board of Directors and became an Executive Vice President of SCM. Douglas Morgan, a former director of Hirsch, also joined the Board of Directors of SCM.

As a result of the April 30, 2009 acquisition of Hirsch, two months of Hirsch operating results are included in SCM s consolidated results in the second quarter of 2009, and Hirsch operating results will continue to be included in SCM s consolidated results going forward.

Trends in SCM s Business

Sales Trends

The current global recession and economic uncertainty has created a broader cautionary environment for SCM and for SCM s customers, and has resulted in decreased or delayed orders for SCM s products in several geographic markets, most particularly Japan (which is reported within results for Asia), Europe and the U.S. SCM believes sales to some markets will continue to be constricted until the global economic environment strengthens, end user demand increases and the lending environment for capital purchases improves. Despite the continued sluggishness of security and identity programs in the U.S., Japan and Europe in the second quarter of 2009, revenue increased

Table of Contents

68% compared to the second quarter of 2008, as a result of SCM s strategic growth initiatives, including the acquisition of Hirsch and investments made in key markets and regions.

SCM believes that the acquisition of Hirsch has strengthened its performance across multiple financial metrics, its ability to capture new and existing sales opportunities and its overall business profile. With only two months of Hirsch operating results included in the second quarter, sales doubled in SCM s Security and Identity Solutions business and overall gross profit margin increased by eight percentage points. The integration of Hirsch and SCM is proceeding as planned: sales and marketing cross training has begun; integrated finance systems, including reporting processes, are in place or in process. SCM completed the move of its headquarters to Hirsch s Santa Ana, California location in the third quarter of 2009.

In the U.S. government market, sales of SCM s smart card reader products for PC and network access by military and federal employees has been an important component of SCM s overall revenue composition. In recent periods, project and budget delays in the U.S. government sector and the rapid shift towards lower cost embedded chips rather than external smart card readers by laptop and keyboard manufacturers servicing the U.S. government sector have constricted SCM s sales in this market. The U.S. government sector is also an important market for SCM s Hirsch business, but Hirsch s sales model is more focused on the provision of integrated systems, rather than point solutions, and is generally less susceptible to variability from project delays and other factors. In the 2009 second quarter, sales from the Hirsch business were up both sequentially and year over year, and a significant percentage of Hirsch sales related to projects at federal government agencies. SCM believes that its acquisition of Hirsch creates a substantially more stable and consistent revenue profile for SCM in the U.S. government sector, given Hirsch s sales model. SCM believes that Hirsch s ability to offer complete systems and professional services complements and strengthens SCM s position and provides significant new opportunities for incremental revenue growth.

In Europe, over the next several quarters SCM believes its most significant revenue opportunity comes from the new electronic health card program in Germany. Deployment of electronic health insurance cards to Germany s 82 million citizens began in 2008 and the German government began distribution of card reader terminals for the program in April 2009. During the second quarter of 2009, SCM continued to ship eHealth terminals for desktop environments and recorded its first sales of mobile terminals. SCM s government-certified eHealth terminals are used in hospitals, pharmacies, physicians offices, nursing homes and elsewhere to authenticate individual health card holders, allow them access to healthcare services and manage medical records and insurance information. Based on the current pace of the German government s deployment of technology in the German electronic health card program, SCM anticipates an opportunity to sell higher volumes of its eHealth terminals towards the end of 2009 and through the first half of 2010.

Apart from this program, the weak economic environment in Europe continues to constrict sales to both established and new customers. In general, smart-card based security projects in all sectors are experiencing delays or are limited in scale. At the same time, sales development activities SCM initiated 12 to 18 months ago as part of its strategy to broaden its market and geographic penetration are resulting in higher customer engagement than in past periods. During the second quarter of 2009 SCM also sold its first products based on the core technology used in its eHealth terminals for applications other than electronic healthcare.

In Japan, the weak economic environment also continued to constrict sales. Outside Japan, SCM s efforts to develop additional distribution channels and penetrate new geographic markets in Asia appear to be demonstrating success. Over the past year, SCM has added sales resources and applied a more systematic and focused approach to sales in countries such as China, India, Korea, Malaysia, the Philippines and Thailand. During the second quarter of 2009, sales in Asia increased significantly year over year and came from an expanded base of customers in a larger number of countries than in past periods. In particular, SCM added new customers, new distribution channels and significantly increased its sales of both smart card chips and readers in the Asian PC OEM market, which targets OEM customers that manufacture components and equipment for global consumer brand companies. SCM expects that its expanded channel and customer base in Asia will continue to generate a higher level of sales going forward.

In its continuing operations, SCM may experience significant variations in demand for its products quarter to quarter. This is particularly true for SCM s smart card reader products, a significant portion of which are currently sold for smart card-based ID programs run by various U.S., European and Asian governments. Sales of SCM s smart card readers and chips for government programs are impacted by testing and compliance schedules of government bodies as well as roll-out schedules for application deployments, both of which contribute to variability in demand from quarter to quarter. Further, this business is typically subject to seasonality based on governmental budget cycles, with lowest sales in the first quarter and highest sales in the fourth quarter of each year. Additionally, SCM is dependent on a small number of customers in its Security and Identity Solutions business overall for a significant portion of its revenues.

Sales of SCM s Digital Media and Connectivity products are less subject to variability based on market or project demands than sales in its Security and Identity Solutions business; however, SCM is dependent on a very small number of customers in this product segment, which can result in fluctuations in sales levels from one period to another. During the second quarter of 2009, the timing of customer orders was not favorable, in part due to the transition to a new product, and revenues were lower than anticipated.

Gross Profit Margin Trends

SCM s acquisition of Hirsch has resulted in a significant increase in SCM s gross profit margin, as Hirsch s sales typically yield margins that are several percentage points higher than sales of SCM s smart card reader products. SCM expects that its gross profit margin will continue to benefit from this more favorable mix going forward. Additionally, SCM has implemented ongoing cost reduction programs to address pricing pressure in its business and these programs have generally resulted in ongoing improvements to its product margins. SCM believes it should be able to offset ongoing pricing pressure and material cost increases with continual improvements in its supply chain systems.

Operating Expense Trends

SCM s operating expenses in the second quarter of 2009 reflect the addition of two months of expenses for the Hirsch business, as well as approximately $0.5 million in transaction costs. Aside from incremental Hirsch expenses, operating expenses decreased both sequentially and year over year across all major categories. During 2008, SCM increased research and development investment in order to develop card reader terminals for the electronic health card program in Germany and new products for the contactless market, and the majority of this work has now been completed. Similarly, Hirsch also increased its engineering investment over the last several quarters to develop its next generation of controllers, and SCM expects that its research and development expenses will decrease from current levels once the development of these controllers is completed. As part of its growth strategy, SCM has also made significant investments to build up sales resources and create business development programs both in its traditional markets and also in the contactless market, particularly in Asia and Latin America. SCM believes that it has sufficient resources in place to address its market opportunities, including new opportunities with Hirsch, and that sales and marketing expenses will remain relatively steady going forward. Over the last three quarters, acquisition related costs have driven increases in general and administrative expense. Going forward, SCM will continue to closely manage its expenses, particularly general and administrative.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses SCM s consolidated financial statements, which have been prepared in accordance with U.S. GAAP. U.S. GAAP does not require that SCM prepare individual financial statements, and accordingly individual annual and interim financial statements have not bee included in this proxy statement and prospectus. The preparation of SCM s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to product returns, customer incentives, bad debts, inventories, asset impairment, deferred tax assets, accrued warranty reserves, restructuring costs, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

Management believes the following critical accounting policies, among others, contain the more significant judgments and estimates used in the preparation of SCM s consolidated financial statements.

SCM recognizes product revenue upon shipment provided that risk and title have transferred, a purchase order has been received, collection is determined to be reasonably assured and no significant obligations remain. Maintenance revenue is deferred and amortized over the period of the maintenance contract. Provisions for estimated warranty repairs and returns and allowances are provided for at the time products are shipped. SCM maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of SCM s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required, which could have a material impact on SCM s results of operations.

SCM typically plans its production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. SCM regularly reviews inventory quantities on hand and records an estimated provision for excess inventory, technical obsolescence and inability to sell based primarily on its historical sales and expectations for future use. Actual demand and market conditions may be different from those projected by SCM s management. This could have a material effect on SCM s operating results and financial position. If SCM were to make different judgments or utilize different estimates, the amount and timing of write-down of inventories could be materially different. Once SCM has written down inventory below cost, it does not subsequently write it up.

SCM adopted the Financial Accounting Standards Board s (FASB) Interpretation No. 48, *Accounting For Uncertain Tax Positions* (FIN 48) in the first quarter of 2007. SCM is required to make certain judgments and estimates in determining income tax expense for financial statement purposes. Significant changes to these estimates may result in an increase or decrease to SCM s tax provision in a subsequent period. The calculation of tax liabilities requires dealing with uncertainties in the application of complex tax regulations. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It is inherently difficult and subjective to estimate such amounts. SCM reevaluates such uncertain tax positions on a quarterly basis based on factors such as, but not limited to, changes in tax laws, issues settled under audit and changes in facts or circumstances. Such changes in recognition or measurement might result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

The carrying value of SCM s net deferred tax assets reflects that SCM has been unable to generate sufficient taxable income in certain tax jurisdictions. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before SCM able to realize their benefit, or that future deductibility is uncertain. Management evaluates the realizability of the deferred tax assets quarterly. The deferred tax assets are still available for SCM to use in the future to offset taxable income, which would result in the recognition of a tax benefit and a reduction in SCM s effective tax rate. Actual operating results and the underlying amount and category of income in future years could render SCM s current assumptions, judgments and estimates of the realizability of deferred tax assets inaccurate, which could have a material impact on SCM s financial position or results of operations.

Resulting from the acquisition of Hirsch, SCM has recognized goodwill of $21.9 million. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Goodwill is not subject to amortization but is subject to annual assessment, at a minimum, for impairment. SCM evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying value, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of quoted market prices, the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies data. If the carrying value of the reporting unit exceeds the fair value, goodwill is considered impaired and a second step is performed to measure the amount of the impairment loss, if any.

SCM evaluates its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by an asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Intangible assets with definite lives are being amortized using the straight-line method over the estimated useful lives of the related assets. For intangible assets, where SCM has determined that these have an indefinite useful life, no amortization is recognized until its useful life is determined to be no longer indefinite. SCM evaluates indefinite useful life intangible assets for impairment at a minimum on an annual basis and whenever events and changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

SCM uses the equity method of accounting for investments in unconsolidated entities where the ability to exercise significant influence over such entities exists. Investments in unconsolidated entities consist of capital contributions plus SCM s share of accumulated earnings of the entities, less capital withdrawals and distributions. Investments in excess of the underlying net assets of equity method investees related to specifically identifiable intangible assets, which are amortized over the useful life of the related assets. Excess investment representing equity method goodwill is not amortized but is generally evaluated for impairment on an annual basis. In case of adverse circumstances arising which may impact the value of its investments, SCM also evaluates whether indications for impairment exist on a case by case basis. Non-marketable equity investments are inherently risky. Their success is dependent on product development, market acceptance, operational efficiency, and other key business factors. Depending on future prospects, these companies may not be able to raise additional funds when the funds are needed or they may receive lower valuations, with less favorable terms than expected, and SCM s investments would likely become impaired.

Recent Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162,* (SFAS 168). SFAS 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for Securities and Exchange Commission registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. The issuance of SFAS 168 and the Codification does not change GAAP. SFAS 168 becomes effective for SCM for the period ending September 30, 2009. Management has determined that the adoption of SFAS 168 will not have an impact on SCM s financial statements.

On January 1, 2009, SCM adopted SFAS No. 141 (revised 2007), *business combinations* (SFAS 141(R)), which replaces SFAS No. 141, *business combinations* (SFAS 141) but retains the fundamental requirements in SFAS 141, including that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. Under SFAS 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be included in income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS 141(R) changes SCM s accounting treatment for business combinations on a prospective basis.

99

Table of Contents

On January 1, 2009, SCM adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. SFAS 160 is effective for SCM on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2009. As of June 30, 2009, SCM did not have any minority interests.

On January 1, 2009, SCM adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. The adoption of SFAS 157, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on SCM s financial statements.

On January 1, 2008, SCM adopted SFAS 157 for all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. SFAS 157 does not change the accounting for those instruments that were, under previous GAAP, accounted for at cost or contract value. The adoption of SFAS 157 did not have a significant impact on SCM s consolidated financial statements, and the resulting fair values calculated under SFAS 157 after adoption were not significantly different than the fair values that would have been calculated under previous guidance.

On January 1, 2009, SCM adopted FASB Statement of Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets,* (SFAS 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. The adoption of FSP FAS 142-3 had no impact on SCM s financial statements.

SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable objective inputs and minimize the use of unobservable inputs, which require additional reliance on SCM s judgment, when measuring fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. SFAS 157 establishes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets; and

Level 3 Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

SCM uses the following classifications to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified:

Cash equivalents include highly liquid debt investments (money market fund deposits, commercial paper and treasury bills) with maturities of three months or less at the date of acquisition. These financial instruments are classified in Level 1 of the fair value hierarchy.

Short-term investments consist of corporate notes and U.S. government agency instruments and are classified as available-for-sale. These financial instruments are classified in Level 1 of the fair value hierarchy. As of June 30, 2009, SCM had no short-term investments.

Table of Contents

Assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2009 were as follows:

	Level 1	Level 2	Level 3	Total
	(In thousands of U.S. dollars)			
Money market fund deposits	$ 1,553	$	$	$ 1,553

Non-financial assets that are measured and recognized at fair value on a non-recurring basis are as follows:

	Level 1	Level 2	Level 3	Total
	(In thousands of U.S. dollars)			
Goodwill	$	$	$ 21,895	$ 21,895
Acquired intangibles Hirsch Acquisition			22,583	22,583
Total:	$	$	$ 44,478	$ 44,478

The valuation of the acquired intangible assets is classified as a Level 3 measurement, because it was based on significant unobservable inputs and involved management judgment and assumptions about market participants and pricing. In determining fair value of the acquired intangible assets, SCM determined the appropriate unit of measure, the exit market and the highest and best use for the assets, in accordance with SFAS 157. The fair value of trade names and existing technology acquired in the Hirsch acquisition was determined using relief from royalty approach and the fair value of Hirsch s customer relationships was determined excess earnings approach. See Note 2 to the Consolidated Financial Statements for the period ended June 30, 2009 for further discussion of this acquisition. The discount rate used in the valuation of the intangible assets was derived from a weighted average cost of capital analysis.

As of June 30, 2009, there were no liabilities that are measured and recognized at fair value on a recurring basis.

Results of Operations

Comparison of Three and Six Months Ended June 30, 2009 and 2008

The comparability of SCM s operating results in the three and six months ended June 30, 2009, compared with the same periods of 2008, is primarily impacted by SCM s acquisition of Hirsch on April 30, 2009, as the 2009 periods presented include two months of operating results from the acquired Hirsch business.

Table of Contents

Net Revenue

Summary information by business segment for the three and six months ended June 30, 2009 and 2008 is as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	% Change Period to Period	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	% Change Period to Period
	(In thousands of U.S. dollars)					
Security and Identity Solutions						
Revenue	$ 10,028	$ 4,878	106%	$ 13,971	$ 9,885	41%
Gross profit	5,251	2,276		6,929	4,423	
Gross profit %	52%	47%		50%	45%	
Digital Media and Connectivity						
Revenue	$ 933	$ 1,642	(43)%	$ 2,145	$ 3,099	(31)%
Gross profit	320	547		755	1,083	
Gross profit %	34%	33%		35%	35%	
Total:						
Revenue	$ 10,961	$ 6,520	68%	$ 16,116	$ 12,984	24%
Gross profit	5,571	2,823		7,684	5,506	
Gross profit %	51%	43%		48%	42%	

Net revenue for the second quarter of 2009 was $11.0 million, up 68% from $6.5 million for the same period of 2008. The increase in second quarter revenue year over year was primarily the result of incremental revenues from the acquired Hirsch business. Excluding Hirsch, revenues were down slightly, reflecting higher demand for SCM s smart card reader products, offset by decreased sales of Digital Media and Connectivity products. For the first six months of 2009, net revenue was $16.1 million, up 24% from revenue of $13.0 million for the first six months of 2008. The increase in revenue for the first six months of 2009 compared with the prior year period resulted from incremental revenues from SCM s acquisition of Hirsch in the second quarter of 2009, partially offset by lower sales of SCM s smart card reader and Digital Media and Connectivity products.

Following SCM s acquisition of Hirsch, revenue in SCM s Security and Identity Solutions business (formerly called Secure Authentication) principally consists of sales of smart card readers, related chip technology and access control products that are primarily used in security programs where smart cards and/or personal identification (PIN) codes are employed to authenticate the identity of people in order to control access to computers or computer networks; borders; buildings and other facilities; and services, such as health care. Additionally, this business includes sales of digital identity and transaction platforms, as well as systems that integrate physical access control, secure data storage and transmission, digital certificates, biometrics and digital video. Also included in this business segment are SCM s CHIPDRIVE software and reader solutions, which provide electronic timecard and other productivity applications for small and medium enterprises and are primarily sold in Europe. The majority of revenue in SCM s Security and Identity Solutions business segment is related to government, financial or enterprise programs and is subject to variability based on the size and timing of customer orders.

Sales in SCM s Security and Identity Solutions business were $10.0 million in the second quarter of 2009, up 106% from sales of $4.9 million in the second quarter of 2008. This increase was primarily due to the inclusion of two months of incremental revenues from the acquired Hirsch business, as well as a 12% increase in sales of SCM s smart card reader products. Hirsch sales in the second quarter were up year over year and included increases in both product and services revenue. Access control systems led product sales and sales for government agency deployments were strong. The increase in organic sales of SCM s smart card readers was primarily due to a significant increase in sales within Asia (excluding Japan), as a result of SCM s strategy to expand its customer base and penetrate new geographic areas. Sales of smart card reader products in the U.S. were up slightly year over year. These increases were offset by decreased sales in Europe and Japan, as economic weakness continued to lengthen sales cycles. Additionally, European sales of CHIPDRIVE business productivity products aimed at small and medium enterprises were depressed as a result of the weak economic environment.

Table of Contents

For the first six months of 2009, sales in SCM s Security and Identity Solutions business were $14.0 million, up 41% from sales of $9.9 million for the first six months of 2008. The increase in sales in the first six months of 2009 compared with the prior year was due to the inclusion of two months of incremental revenues from the acquired Hirsch business in the second quarter of 2009, partially offset by lower sales of smart card reader products in the first quarter of 2009 compared with the prior year, primarily as a result of budget delays in government authentication programs in the U.S. and the impact of the global recession on sales of SCM s retail CHIPDRIVE products in Europe and its smart card readers in Japan.

SCM s Digital Media and Connectivity business consists of sales of digital media readers and related ASIC technology used to provide an interface for flash memory cards, primarily embedded in digital photography kiosks, where the readers are used to download and print digital photos. Two to three customers, historically, have accounted for sales in this business segment. As a result, revenue in the Digital Media Reader business can fluctuate significantly quarter to quarter due to variability in the size and timing of customer orders.

Sales in the Digital Media and Connectivity business were $0.9 million in the second quarter of 2009, a decrease of 43% from sales of $1.6 million in the same period of 2008. For the first six months of 2009, sales in the Digital Media Reader business were $2.1 million, down 31% from sales of $3.1 million for the first six months of 2008. The decrease in Digital Media Reader sales in both the second quarter and the first six months of 2009 compared with the same periods of the prior year was primarily due to the timing of orders from two major customers, which in the second quarter was partially due to an upcoming product transition.

Gross Profit

Gross profit for the second quarter of 2009 was $5.6 million, or 51% of revenue, compared with $2.8 million, or 43% of revenue in the second quarter of 2008. For the first six months of 2009, gross profit was $7.7 million, or 48% of revenue, compared with $5.5 million, or 42% of revenue for the first six months of 2008. Gross profit in the three and six months ended June 30, 2009 was positively impacted by the inclusion of two months of higher margin Hirsch sales in the 2009 second quarter.

Gross profit for the Security and Identity solutions business was 52% of revenue for the second quarter of 2009, compared with 47% for the second quarter of 2008. The increase in the second quarter of 2009 was primarily attributable to the inclusion of higher-margin Hirsch sales. Gross profit for SCM s smart card reader products decreased slightly in the 2009 second quarter due to a less favorable mix of products sold.

Gross profit for SCM s Digital Media and Connectivity products was 34% for the second quarter of 2009, compared with 33% for the second quarter of 2008.

Overall gross profit for the first six months of 2009 compared with the first six months of 2008 was favorably impacted by the inclusion of higher-margin Hirsch sales and the relative stability of gross profit in the Digital Media and Connectivity business, offset by lower gross profit margin for SCM s smart card reader products due to a less favorable sales mix.

SCM expects there will be some variation in its gross profit from period to period, as its gross profit has been and will continue to be affected by a variety of factors, including, without limitation, competition, the volume of sales in any given quarter, product configuration and mix, the availability of new products, product enhancements, software and services, inventory write-downs and the cost and availability of components.

Operating Expenses

Research and Development.

	Three Months Ended June 30		Period to Period	Six Months Ended June 30		Period to Period
	2009	2008		2009	2008	
	(In thousands of U.S. dollars)					
Expenses	$ 1,489	$ 1,043	43%	$ 2,258	$ 2,078	9%
Percentage of total revenues	14%	16%		14%	16%	

Table of Contents

Research and development expenses consist primarily of employee compensation and fees for the development of hardware, software and firmware products. SCM focuses the bulk of its research and development activities on the development of products for new and emerging market opportunities. Figures for the second quarter and first six months of 2009 include two months of expenses from the acquired Hirsch business.

Research and development expenses were $1.5 million in the second quarter of 2009, or 14% of revenue, compared with $1.0 million in the second quarter of 2008, or 16% of revenue, an increase of 43%. For the first six months of 2009, research and development expenses were $2.3 million, or 14% of revenue, compared with $2.1 million, or 16% of revenue for the first six months of 2008, an increase of 9%. Higher research and development expenses in the three and six months ended June 30, 2009 compared with the prior year were primarily due to the inclusion of two months of additional expenses as a result of SCM s acquisition of Hirsch. SCM expects that research and development expenses will generally decrease in future periods following the completion of development of Hirsch s next generation controllers.

Selling and Marketing.

	Three Months Ended June 30		Period to Period	Six Months Ended June 30		Period to Period
	2009	2008		2009	2008	
	(In thousands of U.S. dollars)					
Expenses	$ 3,739	$ 2,569	46%	$ 5,983	$ 4,730	26%
Percentage of total revenues	34%	39%		37%	36%	

Selling and marketing expenses consist primarily of employee compensation as well as tradeshow participation, advertising and other marketing and selling costs. SCM focuses a significant proportion of its sales and marketing activities on new and emerging market opportunities. Figures for the second quarter and first six months of 2009 include two months of expenses related to the acquired Hirsch business.

Selling and marketing expenses were $3.7 million in the second quarter of 2009, or 34% of revenue, compared with $2.6 million in the second quarter of 2008, or 39% of revenue, an increase of 46%. For the first six months of 2009, sales and marketing expenses were $6.0 million, or 37% of revenue, compared with $4.7 million, or 36% of revenue in the first six months of 2008, an increase of 26%. Higher sales and marketing expenses in the three and six months ended June 30, 2009 compared with the prior year were primarily due to the inclusion of two months of additional expenses as a result of SCM s acquisition of Hirsch. Integration of SCM s sales and marketing plans and activities for the SCM and Hirsch businesses is under way and the closure of SCM s Fremont, California office is nearly completed. Accordingly, SCM does not expect further increases in sales and marketing expenses going forward.

General and Administrative.

	Three Months Ended June 30		Period to Period	Six Months Ended June 30		Period to Period
	2009	2008		2009	2008	

	(In thousands of U.S. dollars)					
Expenses	$ 2,199	$ 1,518	45%	$ 4,686	$ 3,021	55%
Percentage of total revenues	20%	23%		29%	23%	

General and administrative expenses consist primarily of compensation expenses for employees performing administrative functions, and professional fees arising from legal, auditing and other consulting services. Figures for the second quarter and first six months of 2009 include two months of expenses related to the acquired Hirsch business.

In the second quarter of 2009 general and administrative expenses were $2.2 million, or 20% of revenue, compared with $1.5 million, or 23% of revenue, in the second quarter of 2008. For the first six months of 2008 general and administrative expenses were $4.7 million, or 29% of revenue, compared with $3.0 million, or 23% of revenue, in the first six months of 2008. Higher general and administrative expenses in both the three and six months

Table of Contents

ended June 30, 2009 compared with the same periods of the prior year were primarily due to transaction related costs of $1.4 million in the first quarter of 2009, and the inclusion of two months of additional expenses as a result of SCM s acquisition of Hirsch as well as transaction costs of $0.5 million relating to the acquisition of Hirsch, in the second quarter of 2009.

Gain on Sale of Assets

During the first quarter of 2009, SCM recorded $0.2 million gain on the sale of certain non-core patents that were unrelated to its current business.

Loss on Equity Investments

Net loss on equity investments of $0.3 million and $0.6 million during the three and six months ended June 30, 2009, respectively, relate to SCM s share of the net losses of its equity method investment in TranZfinity and amortization of the differences between SCM s cost and underlying equity in net assets of TranZfinity, subsequent to the date of investment.

Interest and Other Income (Expense), Net

This includes interest earned on invested cash, interest accretion on the liability to related parties and foreign currency gains or losses.

In the second quarter of 2009, interest income resulting from invested cash balances was $6,000, compared with interest income of $0.2 million for the second quarter of 2008. In the first six months of 2009, interest income was $32,000, compared with interest income of $0.5 million in the first six months of 2008. The decrease in interest income resulted from lower cash balances and lower interest rates. Following the acquisition of Hirsch, during the period from April 30, 2009 (date of acquisition) to June 30, 2009, $0.1 million expense was recognized for the interest accreted on the discounted liability amount to related parties (see Note 14 to the Consolidated Financial Statements for the period ended June 30, 2009).

Foreign currency losses were $0.1 million in the second quarter of 2009 compared with foreign currency gains of $0.2 million in the second quarter of 2008. Foreign currency gains were $0.2 million in the first six months of 2009 compared $0.4 million for the first six months of 2008.

Income Taxes

For the three and six months ended June 30, 2009, SCM recorded a tax benefit of $1.7 million. The tax benefit resulted from accounting treatment following the acquisition of Hirsch, under which deferred tax liabilities of $1.7 million were netted against SCM s existing deferred tax assets, and a $1.7 million release of SCM s valuation allowance was recorded. In accordance with SFAS 141(R), the release of the valuation allowance was recorded as a tax benefit in the second quarter financial statements.

For the second quarter and first six months of 2008, SCM recorded a provision for income taxes of $1,000 and $48,000, respectively, primarily for minimum taxation, which could not be offset with operating loss carryforwards and tax expenses in a foreign subsidiary with no loss carryforwards.

Discontinued Operations

On May 22, 2006, SCM completed the sale of substantially all the assets and some of the liabilities associated with its DTV solutions business to Kudelski S.A. Net revenue for the digital TV (DTV) solutions business was zero in each of the three and six months ended June 30, 2009 and 2008. Operating loss for the DTV solutions business in the three months ended June 30, 2009 was $4,000. For the six months ended June 30, 2009, operating gain was $0.1 million. Operating loss for the DTV solutions business for the three and six months ended June 30, 2008 was $2,000 and $6,000, respectively.

During 2003, SCM completed two transactions to sell its retail Digital Media and Video business. On July 25, 2003, SCM completed the sale of its digital video business to Pinnacle Systems and on August 1, 2003, SCM

Table of Contents

completed the sale of its retail digital media reader business to Zio Corporation. Net revenue for the retail Digital Media and Video business was zero in each of the three and six months ended June 30, 2009 and 2008. Operating loss for the retail Digital Media and Video business was $0.1 million in both the three and six months ended June 30, 2009, and operating loss for the retail Digital Media and Video business was $0.1 million in both the three and six months ended June 30, 2008.

During the three and six months ended June 30, 2009, the total net gain on the disposal of discontinued operations was $38,000 and $0.1 million, respectively. During the three and six months ended June 30, 2008, the total net gain on the disposal of discontinued operations was $0.5 million.

Comparison of Fiscal Years Ended December 31, 2008, 2007 and 2006

The following table sets forth SCM s statements of operations as a percentage of net revenue for the periods indicated:

	Years Ended December 31,		
	2008	**2007**	**2006**
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	55.8	58.4	64.7
Gross profit	44.2	41.6	35.3
Operating expenses:			
Research and development	13.8	10.3	11.2
Selling and marketing	33.9	21.7	22.3
General and administrative	28.5	23.4	22.5
Amortization of intangibles		0.9	2.0
Restructuring and other charges (credits)			3.3
Gain on sale of assets	(5.1)		
Total operating expenses	*71.1*	*56.3*	*61.3*
Loss from operations	(26.9)	(14.7)	(26.0)
Loss on equity investments	(0.9)		
Interest income	2.7	5.4	4.0
Foreign currency losses and other income (expense), net	(9.3)	(1.1)	(0.7)
Loss from continuing operations before income taxes	(34.4)	(10.4)	(22.7)
Provision for income taxes	(2.7)	(0.4)	(0.2)
Loss from continuing operations	(37.1)	(10.8)	(22.9)
Gain (loss) from discontinued operations, net of income taxes	(0.7)	(0.7)	10.4
Gain on sale of discontinued operations, net of income taxes	2.1	5.2	15.5
Net income (loss)	(35.7)%	(6.3)%	3.1%

Table of Contents

Net Revenue.

The following table sets forth SCM s annual revenues and year-to-year change in revenues by product segment for the fiscal years ended December 31, 2008, 2007 and 2006:

	Fiscal 2008	% Change 2007 to 2008	Fiscal 2007	% Change 2006 to 2007	Fiscal 2006
	(In thousands of U.S. dollars)				
Secure Authentication					
Revenues	$ 23,711	(3)%	$ 24,427	3%	$ 23,745
Percentage of total revenues	84%		80%		71%
Digital Media and Connectivity					
Revenues	$ 4,651	(23)%	$ 6,008	(39)%	$ 9,868
Percentage of total revenues	16%		20%		29%
Total revenues	$ 28,362	(7)%	$ 30,435	(9)%	$ 33,613

Fiscal Year 2008 Revenue Compared with Fiscal Year 2007 Revenue

Revenue for the year ended December 31, 2008 was $28.4 million, a decrease of 7% from $30.4 million in 2007. This decrease was due primarily to a 23% decline in sales of SCM s Digital Media and Connectivity products, as well as, to a lesser extent, a 3% decrease in sales of SCM s Secure Authentication products. Sales of Secure Authentication products accounted for 84% of total revenue and sales of Digital Media and Connectivity products accounted for 16% of revenue in 2008.

Secure Authentication product revenue was $23.7 million in 2008, a decrease of 3% from $24.4 million in 2007. SCM s Secure Authentication product line principally consists of smart card readers and related chip technology that are primarily used in large security programs where smart cards are employed to authenticate the identity of people in order to control access to computers or computer networks; borders; buildings and other facilities; and services, such as health care. Also included in this business segment are SCM s CHIPDRIVE software and reader solutions, which provide electronic timecard and other productivity applications for small and medium enterprises, and are primarily sold in Europe. The majority of revenue in the Secure Authentication business segment is government, financial or enterprise programs and is subject to significant variability based on the size and timing of customer orders.

The decrease in Secure Authentication product sales in 2008 compared with the prior year was primarily due to a significant reduction in sales of SCM s smart card reader products for U.S. government authentication programs in the first two quarters of 2008, mainly due to project and budget delays. During 2008, SCM also experienced an ongoing shift in the U.S. government market away from external reader devices and towards interface chips that provide embedded reader technology in laptops and keyboards. SCM sold high volumes of smart card interface chips for embedded readers to laptop and keyboard manufacturers in Asia that have somewhat offset the decrease in sales of external reader devices in the U.S.; however, these chips have a lower average selling price than SCM s external reader devices.

The largest percentage of Secure Authentication product revenues in 2008 came equally from sales of readers for U.S. government projects to comply with Homeland Security Presidential Directive-12 and other federal mandates, and sales of readers for electronic identification and other programs in Europe. Sales of smart card interface chips in Asia demonstrated the fastest rate of growth in 2008 of any of SCM s products. Sales of CHIPDRIVE business productivity solutions were relatively flat year to year.

Revenue from SCM s Digital Media and Connectivity product line was $4.7 million in 2008, a decrease of 23% from $6.0 million in 2007. The Digital Media and Connectivity product line consists of digital media readers and related ASIC technology used to provide an interface for flash memory cards, primarily embedded in digital photography kiosks, where the readers are used to download and print digital photos. Two to three customers, historically, have accounted for approximately two-thirds of sales in this business segment. As a result, revenue in the Digital Media and Connectivity product line can fluctuate significantly quarter to quarter due to variability in the

Table of Contents

size and timing of customer orders. The revenue decrease in 2008 was primarily due to reduced orders from a major customer in the second half of 2008.

Fiscal Year 2007 Revenue Compared with Fiscal Year 2006 Revenue

Revenue for the year ended December 31, 2007 was $30.4 million, a decrease of 9% from $33.6 million in 2006. This decrease was due primarily to a 39% decline in sales of SCM s Digital Media and Connectivity products, primarily due to the loss of a major customer at the beginning of 2007, offset in part by a 3% increase in sales of SCM s Secure Authentication products. Sales of Secure Authentication products accounted for 80% of total revenue in 2007 and sales of Digital Media and Connectivity products accounted for 20% of revenue.

Secure Authentication product revenue was $24.4 million in 2007, an increase of 3% from $23.7 million in 2006. In 2007, the composition of sales of SCM s Secure Authentication products remained very similar to the prior year, except that within Europe, there was less revenue associated with the various government and other security programs that comprise the majority of SCM s European sales, while SCM s CHIPDRIVE products contributed a more significant amount of revenue.

Sales of readers for U.S. government projects to comply with Homeland Security Presidential Directive-12 and other federal mandates comprised the largest percentage of total Secure Authentication sales in 2007, followed by sales of readers for electronic identification and other programs in Europe, sales of readers for enterprise security programs in Asia and sales of CHIPDRIVE software and readers.

Revenue from SCM s Digital Media and Connectivity product line was $6.0 million in 2007, a decrease of 39% from $9.9 million in 2006. The revenue decrease in 2007 was primarily due to the loss of a major customer at the beginning of that year. Sales to another major customer increased significantly in the second half of the year; however, this was not sufficient to offset the decrease in sales in the first half of the year.

Gross Profit

The following table sets forth SCM s gross profit and year-to-year change in gross profit by product segment for the fiscal years ended December 31, 2008, 2007 and 2006:

	Fiscal 2008	**% Change 2007 to 2008**	**Fiscal 2007**	**% Change 2006 to 2007**	**Fiscal 2006**
		(In thousands of U.S. dollars)			
Secure Authentication					
Revenues	$ 23,711		$ 24,427		$ 23,745
Gross profit	10,910	4%	10,472	8%	9,725
Gross profit %	46%		43%		41%
Digital Media and Connectivity					
Revenues	$ 4,651		$ 6,008		$ 9,868
Gross profit	1,635	(25)%	2,182	2%	2,132
Gross profit %	35%		36%		22%
Total:					
Revenues	$ 28,362		$ 30,435		$ 33,613

Gross profit	12,545	(1)%	12,654	7%	11,857
Gross profit %	44%		42%		35%

Gross profit for 2008 was $12.5 million, or 44% of revenue. During 2008, gross profit was impacted by a more favorable mix of higher margin products overall and product cost reductions in the Secure Authentication business, offset by lower Digital Media and Connectivity product volumes. By product segment, gross profit for Secure Authentication products was 46% and gross profit for Digital Media and Connectivity products was 35% in 2008.

Gross profit for 2007 was $12.7 million, or 42% of revenue. During 2007, gross profit was impacted by a more favorable mix of products sold, including CHIPDRIVE products, better inventory management, and product cost reductions, particularly in the Secure Authentication business. Offsetting these positive factors were low sales levels

Table of Contents

of Digital Media and Connectivity products in the first half of the year and low sales levels of Secure Authentication products in the second quarter of 2007, as well as pricing pressure over the last several quarters. By product segment, gross profit for Secure Authentication products was 43% and gross profit for Digital Media and Connectivity products was 36% in 2007.

Gross profit for 2006 was $11.9 million, or 35% of revenue. During 2006, gross profit for Secure Authentication products was impacted by increased pricing pressure, offset by the effect of a more favorable product mix as SCM increased the number of contactless readers sold, particularly for e-passport applications. During the fourth quarter of 2006, SCM experienced an increase in gross profit in the Secure Authentication business primarily due to better inventory management and cost reduction programs established earlier in the year. In the Digital Media and Connectivity business, gross profit was impacted by pricing pressure, as well as by an increasing proportion of lower margin products sold.

Gross profit has been and will continue to be affected by a variety of factors, including, without limitation, competition, the volume of sales in any given quarter, product configuration and mix, the availability of new products, product enhancements, software and services, inventory write-downs and the cost and availability of components.

Operating Expenses

Research and Development.

(In thousands of U.S. dollars)	**Fiscal 2008**	**% Change 2007 to 2008**	**Fiscal 2007**	**% Change 2006 to 2007**	**Fiscal 2006**
Expenses	$ 3,902	25%	$ 3,123	(17)%	$ 3,767
Percentage of revenue	14%		10%		11%

Research and development expenses consist primarily of employee compensation and various external expenses for the development of hardware and firmware products. SCM focuses the bulk of its research and development activities on the development of products for new and emerging market opportunities.

Research and development expenses were $3.9 million in 2008, up 25% from $3.1 million in 2007. The increase in research and development expenses in 2008 was primarily due to the development of new contactless Secure Authentication products and increased development activity related to card terminals for the German e-healthcard program.

In 2007 and 2006, SCM focused primarily on the development of smart card reader technology for the German e-healthcard program, electronic ID applications and the global e-passport market. Research and development expenses were $3.1 million in 2007, or 10% of revenue, compared with $3.8 million in 2006, or 11% of revenue, a decrease of 17%. This decrease was primarily due to a lower level of external resources used.

Selling and Marketing.

	Fiscal	**% Change**	**Fiscal**	**% Change**	**Fiscal**

(In thousands of U.S. dollars)	2008	2007 to 2008	2007	2006 to 2007	2006
Expenses	$ 9,620	46%	$ 6,603	(12)%	$ 7,498
Percentage of revenue	34%		22%		22%

Selling and marketing expenses consist primarily of employee compensation as well as tradeshow participation and other marketing and selling costs. SCM focuses a significant proportion of its sales and marketing activities on new and emerging market opportunities, including e-health, contactless applications and business productivity solutions for small and medium-sized businesses.

Sales and marketing expenses were $9.6 million in 2008, up 46% from $6.6 million in 2007. The increase in sales and marketing expenses in 2008 was primarily due to the hiring of new sales resources during the year in Asia, Europe and the Americas to enhance SCM s ability to address current and future business opportunities, as well as an increased level of marketing programs and travel expenses related to new business development activities. Also

Table of Contents

included in 2008 are approximately $0.2 million and $0.1 million in severance costs recorded in the second and fourth quarters of 2008, respectively.

Selling and marketing expenses were $6.6 million in 2007, or 22% of revenue, compared with $7.5 million in 2006, or 22% of revenue, a decrease of 12%. The decrease was primarily due to a reduction in sales personnel and activities as a result of restructuring activities that occurred at the end of 2006.

General and Administrative.

(In thousands of U.S. dollars)	Fiscal 2008	% Change 2007 to 2008	Fiscal 2007	% Change 2006 to 2007	Fiscal 2006
Expenses	$ 8,075	13%	$ 7,132	(6)%	$ 7,548
Percentage of revenue	28%		23%		22%

General and administrative expenses consist primarily of compensation expenses for employees performing administrative functions, and professional fees arising from legal, auditing and other consulting services.

General and administrative expenses in 2008 were $8.1 million, up 13% from $7.1 million in 2007. Higher general and administrative expenses in 2008 primarily resulted from increased business development activities related to SCM s strategy to expand and diversify its customer base and market opportunities. Additionally, the fourth quarter of 2008 included $1.4 million of legal, consulting, auditing and other expenses related to SCM s proposed merger with Hirsch, as well as $0.1 million in severance costs. General and administrative expenses in 2008 were also impacted by the devaluation of the U.S. dollar in the first half of the year against foreign currencies, namely the Euro, as SCM pays the majority of these expenses in local currency but accounts for those expenses in U.S. dollars.

In 2007, general and administrative expenses were $7.1 million, or 23% of revenue, compared with $7.5 million, or 22% of revenue in 2006, a decrease of 6%. The decrease primarily was due to the consolidation and transfer of SCM s corporate finance and compliance functions from the U.S. to Germany and the completion of the transfer of local finance functions from Singapore and the U.S. to Germany at the end of 2006, offset in part by the payment of $1.4 million in severance and other costs related to SCM s former CEO in the second quarter of 2007.

Amortization of Intangibles

Amortization of intangible assets was zero in 2008, $0.3 million in 2007 and $0.7 million in 2006.

Restructuring and Other Charges (Credits).

During 2006, SCM recorded restructuring and other charges of $1.4 million, primarily related to severance costs for general and administrative personnel that were affected by SCM s decision to relocate its corporate finance and compliance functions from the U.S. to Germany and local finance functions from the U.S. and Singapore to Germany, as well as the outsourcing of SCM s manufacturing operations from its Singapore facility to contract manufacturers. Severance costs for manufacturing personnel of approximately $0.3 million have been recorded in cost of revenue (See Note 9 to the Consolidated Financial Statements for the period ended December 1, 2008).

Gain on Sale of Asset

During 2008, SCM recorded $1.4 million gain on the sale of certain non-core patents that were unrelated to its current business. A further $0.1 million gain was realized on the sale of unused land.

Loss on Equity Investments. On October 1, 2008, SCM entered into a Stock Purchase Agreement with TranZfinity, a privately held entity, pursuant to which SCM purchased 33.7% of the outstanding shares of TranZfinity common stock for an aggregate purchase price of $2.5 million. Net loss on equity investments of $0.3 million in 2008 relates to SCM s share of the losses of its equity method investment in TranZfinity ($0.2 million) and amortization of the differences between SCM s cost and underlying equity in net assets of TranZfinity ($0.1 million), subsequent to the date of investment.

Table of Contents

Interest Income

Interest income consists of interest earned on invested cash. Interest income resulting from cash balances was $0.8 million in 2008, $1.6 million in 2007 and $1.4 million in 2006. The reduction in interest income in 2008 reflects SCM s reduced cash balance and the reduction in interest rates in 2008 compared to 2007. Higher interest income in 2007 compared with 2006 resulted primarily from higher interest rates in 2007.

Foreign Currency Gains and Losses and Other Income and Expense

SCM recorded foreign currency exchange losses and other expense of $2.6 million in 2008, $0.3 million in 2007 and $0.2 million in 2006. Changes in currency valuation in all periods presented were primarily a result of exchange rate movements between the U.S. dollar and the Euro and the British pound.

SCM s foreign currency losses primarily result from the valuation of current assets and liabilities denominated in a currency other than the functional currency of the respective entity in the local financial statements. Accordingly, these foreign currency losses are predominantly non-cash items.

Higher foreign exchange losses in 2008 were primarily the result of the weakening of the Euro and the British pound versus the U.S. dollar during the second half of the year and the impact of these currency fluctuations on SCM s accounting for intercompany balances. To reduce its exposure to fluctuations in foreign exchange valuations, SCM has settled the significant intercompany balances that previously had contributed to foreign exchange gains and losses.

For both 2007 and 2006, foreign currency losses were $0.3 million. No other income was recorded in 2007, while other income was $0.1 million in 2006.

Income Taxes

In 2008, 2007 and 2006, SCM recorded provisions for income taxes of $0.8 million, $0.1 million and $0.1 million, respectively.

For the 2008 period, $0.4 million related to deferred tax liabilities for undistributed earnings and profits of SCM subsidiaries, which are not considered to be permanently invested; $0.3 million income tax expense related to a foreign subsidiary with no loss carryforwards; and the remaining $0.1 million was primarily for minimum taxation, which could not be offset with operating loss carryforwards.

Income tax expense in the years 2007 and 2006 was primarily for minimum taxation, which could not be offset with operating loss carryforwards and tax expenses in a foreign subsidiary with no loss carryforwards.

Discontinued Operations

On May 22, 2006, SCM completed the sale of substantially all the assets and some of the liabilities associated with its DTV solutions business to Kudelski S.A. Revenue for the DTV solutions business was zero, $0.5 million and $13.5 million in 2008, 2007 and 2006, respectively. Operating gain (loss) for the DTV solutions business was $2,000, $0.1 million and $(1.3) million in 2008, 2007 and 2006, respectively. Net gain (loss) for the DTV solutions business was $2,000, $0.1 million and $3.0 million in 2008, 2007 and 2006, respectively.

During 2003, SCM completed two transactions to sell its retail Digital Media and Video business. On July 25, 2003, SCM completed the sale of its digital video business to Pinnacle Systems and on August 1, 2003, SCM completed the sale of its retail digital media reader business to Zio Corporation.

SCM recorded no revenue for the retail Digital Media and Video business in 2008, 2007 or 2006. Operating loss for the retail Digital Media and Video business for the same periods was $0.3 million, $0.3 million and $0.2 million, respectively. Net gain (loss) for the retail Digital Media and Video business was $(0.2), $(0.3) million and $0.5 million for 2008, 2007 and 2006 respectively.

During 2008, SCM recorded a net gain on disposal of discontinued operations of $0.6 million, primarily related to the termination of its lease agreement for premises leased in the UK, which resulted in a gain of $0.4 million. The remaining $0.2 million was primarily related to changes in estimates for lease commitments.

Table of Contents

During 2007, SCM recorded a net gain on disposal of discontinued operations of $1.6 million, primarily related to the final payment received for the sale of the assets of the DTV solutions business.

During 2006, SCM recorded a net gain on disposal of discontinued operations of $5.2 million, primarily related to the sale of the assets of the DTV solutions business.

Liquidity and Capital Resources

Working Capital

As of June 30, 2009, SCM s working capital, which SCM has defined as current assets less current liabilities, was $11.5 million, compared to $23.9 million as of December 31, 2008, a decrease of approximately $12.4 million. The reduction in working capital for the first six months of 2009 primarily reflects a cash payment for the Hirsch acquisition of $14.2 million, offset by an acquired cash balance of $3.3 million. The further reduction in cash and cash equivalents primarily resulted from operating activities. Current assets (excluding cash and cash equivalents) increased by $4.8 million and current liabilities increased by $2.0 million, also primarily as a result of including the assets and liabilities acquired in the Hirsch transaction.

As of December 31, 2008, SCM s working capital was $23.9 million, compared to $34.0 million as of December 31, 2007, a decrease of approximately $10.1 million. Current assets decreased by $9.9 million, resulting from a reduction in cash, cash equivalents and short-term investments of $11.9 million and a reduction of other current assets of $0.3 million, partly offset by increases in inventories of $2.3 million and in accounts receivable of $0.1 million. Current liabilities increased by $0.2 million, resulting from higher accounts payable of $0.5 million and higher income taxes payable of $0.1 million, partly offset by an decrease in accruals of $0.4 million.

Cash Flow

The following summarizes SCM s cash flows for the six months ended June 30, 2009:

	Six Months Ended June 30, 2009 (In thousands of U.S. dollars)
Cash used in operating activities from continuing operations	$ (4,313)
Cash provided by operating activities from discontinued operations	401
Cash used in investing activities	(10,889)
Effect of exchange rate changes on cash and cash equivalents	(440)
Decrease in cash and cash equivalents	(15,241)
Cash and cash equivalents at beginning of period	20,550
Cash and cash equivalents at end of period	$ 5,309

During the first six months of 2009, cash used in operating activities was $3.9 million. The net loss of $3.5 and the non-cash impact from changes in deferred income taxes of $1.9 million was partly offset mainly by the non-cash impact of the loss on equity investments of $0.6 million, cash provided from net changes in operating assets and liabilities of approximately $0.5 million and cash provided from the net changes in the assets and liabilities from discontinued operations of approximately $0.4 million.

Significant commitments that will require the use of cash in future periods include obligations under operating leases, inventory purchase commitments and other contractual agreements. Gross committed lease obligations were approximately $5.1 million at June 30, 2009. Inventory and other purchase commitments due within one year were approximately $9.6 million, and additional purchase and contractual commitments due within two years were approximately $1.9 million at June 30, 2009.

The cash used in investing activities mainly reflects the cash payment for the Hirsch acquisition of $14.2 million, offset by an acquired cash balance of $3.3 million.

SCM s liquidity plans are subject to a number of risks and uncertainties, including those described in section Risk Factors, some of which are outside SCM s control. As with many companies across industry, SCM s liquidity position as well as its operating performance has been negatively affected by the global economic downturn and by other financial and business factors, many of which are beyond SCM s control.

In 2008, cash and cash equivalents increased by $2.0 million, as maturing short-term investments were not reinvested. While operating activities used $11.2 million in cash, investing activities provided $12.3 million. The effect of exchange rates on cash and cash equivalents was an increase of $0.9 million.

Cash used in operating activities of $11.2 million was primarily related to a net loss of $10.1 million. The remaining $1.1 million cash used in operating activities resulted primarily from the net effect of changes in working capital. Cash provided in operating activities from discontinued operations was $0.2 million.

Cash provided in investing activities from continuing operations of $12.3 million resulted primarily from the maturity of short-term investments of $13.9 million and the proceeds from sale of assets totaling $1.6 million, of which $1.4 million related to the sale of certain non-core patents. Offsetting the increase was a $2.5 million investment to purchase 33.7% of the outstanding shares of TranZfinity, and $0.7 million related to capital expenditures, of which $0.3 million related to an exclusivity right with TranZfinity.

Cash provided by financing activities resulted from the issuance of SCM common stock related to SCM s stock option programs. At December 31, 2008, SCM s outstanding stock options as a percentage of outstanding shares was 12%, unchanged from December 31, 2007.

SCM currently expects that its current capital resources should be sufficient to meet its operating and capital requirements at least through the end of 2009. SCM may, however, seek additional debt or equity financing prior to that time. There can be no assurance that additional capital will be available to SCM on favorable terms or at all. The sale of additional debt or equity securities may cause dilution to existing stockholders.

SCM also has initiated various activities to preserve cash or generate additional cash. For example in the fourth quarter of 2008 SCM began selling certain non-strategic patents that are unrelated to its current business, which to date have generated $1.6 million in cash. Currently, SCM is also evaluating the sale of fixed assets such as office facilities, where there are options to lease facilities at more favorable terms.

Off-Balance Sheet Arrangements

SCM has not entered into off-balance sheet arrangements, or issued guarantees to third parties.

Contractual Obligations

The following summarizes expected cash requirements for contractual obligations as of December 31, 2008:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands of U.S. dollars)				
Operating leases	$ 4,277	$ 1,501	$ 1,956	$ 820	$

Purchase commitments	12,884	9,966	2,918		
Total Obligations	$ 17,161	$ 11,467	$ 4,874	$ 820	$

Purchases for inventories are highly dependent upon forecasts of customer demand. Due to the uncertainty in demand from its customers, SCM may have to change, reschedule, or cancel purchases or purchase orders from its suppliers. These changes may lead to vendor cancellation charges on these purchases or contractual commitments.

The long-term income taxes payable of $0.2 million accounted for under FIN 48 as of December 31, 2008 are not included in the table above. SCM is unable to reliably estimate the timing of future payments related to these uncertain tax positions.

Table of Contents

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in, and SCM has had no disagreements with its accountants with respect to, its accounting and financial disclosure.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currencies

SCM transacts business in various foreign currencies, and accordingly, SCM is subject to exposure from adverse movements in foreign currency exchange rates. This exposure is primarily related to local currency denominated sales and operating expenses in Europe, India and Japan, where SCM conducts business in both local currencies and U.S. dollars. SCM assesses the need to utilize financial instruments to hedge foreign currency exposure on an ongoing basis.

SCM s foreign currency exchange gains and losses are primarily the result of the revaluation of intercompany receivables/payables (denominated in U.S. dollars) and trade receivables (denominated in a currency other than the functional currency) to the functional currency of the subsidiary. SCM has performed sensitivity analyses as of December 31, 2008 and 2007 using a modeling technique that evaluated the hypothetical impact of a 10% movement in the value of the U.S. dollar compared to the functional currency of the subsidiary, with all other variables held constant, to determine the incremental transaction gains or losses that would have been incurred. The foreign exchange rates used were based on market rates in effect at each of December 31, 2008 and 2007. The results of this hypothetical sensitivity analysis indicated that a hypothetical 10% movement in foreign currency exchange rates would result in increased foreign currency gains or losses of $0.8 million and $0.9 million for 2008 and 2007, respectively.

Fixed Income Investments

SCM does not use derivative financial instruments in its investment portfolio. SCM does, however, limit its exposure to interest rate and credit risk by establishing and strictly monitoring clear policies and guidelines for its fixed income portfolios. At the present time, the maximum duration of any investment in SCM s portfolio is limited to less than one year. The guidelines also establish credit quality standards, limits on exposure to one issue or issuer, as well as to the type of instrument. Due to the limited duration and credit risk criteria SCM has established, SCM s exposure to market and credit risk is not expected to be material.

At December 31, 2008, SCM had $20.6 million in cash and cash equivalents and no short-term investments. Based on its cash and cash equivalents as of December 31, 2008, a hypothetical 10% change in interest rates along the entire interest rate yield curve would not be expected to materially affect the fair value of SCM s financial instruments that are exposed to changes in interest rates.

At December 31, 2007, SCM had $18.6 million in cash and cash equivalents and $13.8 million in short-term investments. Based on its cash and cash equivalents and short-term investments as of December 31, 2007, a hypothetical 10% change in interest rates along the entire interest rate yield curve would not be expected to materially affect the fair value of SCM s financial instruments that are exposed to changes in interest rates.

Table of Contents

INFORMATION ABOUT BLUEHILL ID

Overview

Bluehill ID is a Swiss industrial holding group established in the style of a SPAC (Special Purpose Acquisition Corporation) for investments in the radio frequency identification (RFID)/identification and security industries. Bluehill ID targets controlling stakes in small to medium-sized companies in the RFID/identification and security space to support its buy, build and grow strategy on a global scale. Bluehill ID was registered in March 2007 in Switzerland and has been traded at the Open Market of the Frankfurt Stock Exchange since December 2007 under the symbol BUQ.

Bluehill ID s business model is to combine financial investment expertise with experienced management to create a vehicle for growth and value in the RFID/identification and security industries. In particular, Bluehill ID aims to use its increasing size, scale, and reach to make investments and acquisitions that drive consolidation in the highly fragmented RFID and security markets. In the two years since Bluehill ID s inception, Bluehill ID has focused on acquiring and building a group of companies in the RFID/identification and security market with significant growth potential. Bluehill ID is also focused on successive capital increases in line with its acquisition strategy, in order to allow the utilization of shares as an acquisition currency.

Companies in the Bluehill ID Group

To date, Bluehill ID has acquired and integrated the following businesses and brands into its group of companies, which are referred to as the Bluehill ID Group Companies:

ACiG Technology. ACiG Technology is an independent supplier and value added distributor of RFID and smart card integrated circuits, inlays, reader modules and other components. In parallel, through ACiG Brazil, ACiG is active in wireless/ telecommunication, semiconductors and opto-electronics distribution. ACiG also is the sourcing partner for the rest of the Bluehill ID Group Companies, providing the other members with RFID components. ACiG leverages comprehensive market and technology know-how, expertise in virtual manufacturing and a direct business partnership with NXP, the leading semiconductor manufacturer in RFID and NFC (Near Field Communication). ACiG has operations in Europe (Germany), the U.S. and in Brazil.

Arygon Technologies. Arygon is an early entrant and innovator in NFC/MIFARE RFID reader technology and related project services. The company manufactures advanced RFID reader modules for physical and logical access, transit and event ticketing, payment, government ID, industrial, medical and NFC applications. Arygon also supplies high-quality RFID cards, key fobs, wristbands, custom tags and NFC starter kits. The company utilizes the development services of Scolis, also a Bluehill ID Group Company led by a group of highly experienced engineers with its core research and development team located in Chennai, India. Scolis has expertise and know-how in developing and manufacturing high quality ePassport and eNational ID readers as well as secure identification solutions. The Scolis team services the industry with embedded technologies, ASIC design and product design (chip architecture), as well as software development, such as embedded firmware and drivers.

Multicard. Multicard is a worldwide supplier of multi-functional smart card solutions for secure identification programs with in-house capabilities for credential issuance, personalization and fulfillment services for the consumer, government and corporate customers. Multicard offers ID systems management and engineering services as well as full implementation and program management. Multicard is also a provider of online enrollment services and portable biometric data capture equipment for enrollment of ePassport and other government ID and corporate ID applications. Multicard has four locations, in Switzerland, Germany, the Netherlands and Australia, and serves various different customer groups ranging from governments and municipalities, to commercial and industrial companies and non-governmental organizations.

TagStar Systems. TagStar Systems is an RFID transponder manufacturer based in Germany. Founded in 2003, TagStar is a growing company with know-how in the design and manufacture of RFID inlays. RFID inlays are purchased by specialist companies for conversion into event or venue cards or tickets, such as ski tickets, football games or concerts, and for transport tickets and passes. Their particular skill is to cost-effectively combine and connect integrated circuit chips from NXP, Infineon, and others, with antennas into an inlay that can withstand the physical and environmental stresses in the applications that their products are used.

Syscan ID. Originally founded in 1996, Syscan ID (formally Syscan International) is a producer of RFID ISO wand readers, also known as electronic id readers (EID) for livestock. The company is centered on animal ID, traceability, country of origin labeling (COOL) and age verification, as well as in industrial applications where a rugged RFID hand held reader is needed. Syscan ID also develops and customizes RFID readers and printer kits, offering mobile identification tool in the agriculture and industrial sectors. Markets are keyed to wherever livestock traceability and industrial tracking management is needed: Europe, North America, South America and Australia.

Bluehill ID s predecessor companies are Multicard GmbH, Multicard AG and TagStar Systems GmbH, which were all acquired effective as of June 30, 2008, and represented Bluehill ID s first acquisitions. The three companies represent Bluehill ID s key focus areas of ID management and RFID and formed the foundation of Bluehill ID group company structure. The predecessor companies address strategic segments of the RFID / ID value chain for Bluehill ID. Multicard GmbH and Multicard AG serve the ID management and integration markets and TagStar is an RFID transponder manufacturer. The Multicard brand has expanded into the Netherlands and Australia. TagStar represents an area of technological innovation and development for Bluehill ID and is experiencing growth in new markets and investing in additional sales resources.

Organizational Structure

At a group level, Bluehill ID is comprised of an executive team as well as support functions. The executive team includes the CEO, COO/CFO and Executive Vice Presidents of Integration and Technology. Support functions have been put in place to strengthen Bluehill ID s finance and control, reporting, marketing, project management and investor relations capabilities. Bluehill ID provides assistance to Bluehill ID Group Companies across all areas including integration and turn around, financial management, marketing and technology support. Once integrated into the group, the Bluehill ID philosophy is to give the managers of subsidiaries, many of whom are also the founders, the freedom to operate their companies, make key decisions and utilize their entrepreneurial talents. Managers are incentivized based on individual company and group performance, with bonuses linked to growth and profitability.

An important component of Bluehill ID s strategy is to optimize its capital investments by identifying and developing potential synergies of both people and other assets in order to strengthen the company with every acquisition made. Such synergies may include the optimization of people, plants, or manufacturing investments through integrated and/or consolidated locations. Before investing in or acquiring a company, Bluehill ID typically will closely evaluate the management of any company to ensure both the quality of management and the commitment to the common overall goals and the cultural fit within the Bluehill ID Group Companies. Bluehill ID will also carefully examine any potential transaction with regards to its valuation, ease of transaction and the stock market s perception of any potential deal. Another important selection principle is the fit on the detailed synergies post acquisition, as is the ease of access and the IT system implementation, as well as the overall cost to Bluehill ID and its shareholders.

Sales and Marketing

Bluehill ID Group Companies generally conduct their own sales and marketing activities in the market segments in which they compete. In some cases the companies utilize a direct sales and marketing organization, in others it is supplemented by a dealer/systems integrator distribution channel, value added resellers, resellers and Internet sales.

Bluehill ID s direct sales staff solicits prospective customers, provides technical advice and support with respect to its products and works closely with customers, distributors and some OEMs. In its ACiG business unit, the majority of sales are through direct sales channels to end customers and OEM s. In the Arygon business, the majority of sales are made through authorized re-sellers (also known as integrators, value added resellers, OEM s, and partners) who in turn resell and sometimes install the products. The Multicard group sells primarily direct also through Multicard-authorized resellers to customer and dealers, when appropriate. Syscan ID primarily sells through authorized dealers in North America, Europe, and Australia. In support of its sales efforts, Bluehill ID participates in trade shows and conducts sales training courses, targeted marketing programs and advertising, and ongoing customer and third-party communications programs. In many cases, this is done with a number of Bluehill ID Group Companies participating and sharing overhead and expenses. As of June 30, 2009, Bluehill ID had 24 full-time employees engaged in sales and marketing activities.

Customers

Bluehill ID has a global customer base that includes companies in many industries and applications. These include companies utilizing cards and readers in loyalty programs, ticketing, stadiums, skiing, corporate identification, physical and logical access control, passport control, and other applications.

Bluehill ID Group sales address multiple market segments and Bluehill ID is not overly reliant on a single segment or single customer. In 2008, Bluehill ID s largest percentage of sales by industry were to the mass transportation/ticketing, government (including local authorities), and retail industries. Sales geographically are concentrated in Europe, Brazil, Australia, and to a lesser extent in Canada and the U.S.

Bluehill ID s customers are active in a variety of different business areas. However, as Bluehill ID commenced its operations on June 30, 2008 by making its first three acquisitions, and completed an additional acquisitions prior to year-end 2008, the customers of these four companies in 2008 accounted for a significant percentage of Bluehill ID s total sales. Sales to Bluehill ID s top ten customers accounted for approximately 52% of revenue in fiscal year 2008, with operations starting on June 30, 2008. In 2008, the top three customers accounted for approximately 19%, 9% and 4% of revenues, respectively.

In fiscal year 2009, Bluehill ID expects that, with the completed acquisition of six more companies, the diversity of the customer base of its new acquisitions will substantially offset the dependence it has on a limited number of customers in its other business areas. Sales to Bluehill ID s top ten customers are expected to account for approximately 23% of revenue in fiscal year 2009, with the top three customers accounting for 9%, 6%, and 3% of revenues. However, the loss or reduction of orders from a significant customer, including losses or reductions due to manufacturing, reliability or other difficulties associated with its products, changes in customer buying patterns, or market, economic or competitive conditions in the tag and identification businesses, could adversely impact Bluehill ID s business and operating results.

Overview of the RFID Market

How RFID Works

RFID (Radio Frequency Identification) is a contactless data transmission technology that is used to allow identification of or communication between two or more devices via radio frequency. RFID is used for identifying and tracking objects on a local or global scale and is employed in a wide variety of applications, from packaging, to access control, to personal identification. RFID is emerging as the preferred technology for identification and tracking applications across industries because it is superior to bar codes and magnetic stripes in convenience and reliability and has similar security features and a higher level of durability than a contact chip. Additionally, its memory and read/write capabilities make it much more flexible.

A typical RFID system consists of a transponder which acts as a data carrier and may be in the form of a card, tag, key fob or label and a reader. When the transponder is within the reader s working distance, it transmits data to the reader via radio frequency. The technology is contactless because the transponder does not have to be in physical contact with the reader, but can operate at distances ranging from a few centimeters to tens of meters depending on the frequency and kind of transponder used.

RFID technology can dramatically increase an organization s ability to acquire a vast array of data about the location and properties of any entity that can be physically tagged. It allows entities to become mobile, intelligent, communicating components of an organization s overall information infrastructure. The combination of the tagged mobile entity, the reader, the hardware infrastructure, and the software that processes the data, makes RFID systems a new type of inter and intra-organizational system that crosses a firm s boundaries, resulting in new opportunities to transform supply, manufacturing, distribution, and customer deployments for real-time process optimization. RFID technology is also used in government applications in passports, national ID cards, drivers licenses, travel cards, health cards and social security cards for both identification and access control. Applications in financial services and transit include credit/debit cards, vending systems, loyalty programs, ticketing and events admission.

Opportunities in the RFID Market

The opportunities that exist in the RFID market include both possibilities to use the technology more broadly and in increasing numbers of applications; and the potential to build a global, market leading business that is capable of addressing multiple areas of the RFID value chain.

Currently, the most common use of RFID technology is in Electronic Product Code (EPC) applications, which address retail inventory management and the tracking of goods as they are manufactured, distributed or sold. RFID solutions for EPC applications are generally low value and existing suppliers are already firmly entrenched in the market. RFID technology has the potential to address an array of higher value applications where providers can differentiate themselves while realizing higher revenue and profit returns. Addressing these higher value applications requires coordination between the different parts of the RFID value chain, and to date this is being addressed primarily by smaller companies on an ad hoc basis. This limits both the success of the individual players and the growth of the RFID market itself.

Overall Growth in RFID Market

The RFID industry is experiencing strong growth rates. For instance, IDTechEX expects the overall RFID market to grow an average of 18% per year from 2007 2017. Global annual revenues are expected to grow from $5 billion in 2007 to $7 billion in 2017, according to research published by Raghu Das and Dr Peter Harrop (*RFID Forecasts, Players & Opportunities 2007-2017, Complete RFID Analysis & Forecasts 2007-2017*). Specific sectors of the industry are set to reach even higher growth rates, with the sensor market predicted to grow annually by 27% through 2017, according to Das and Harrop (*Active RFID and Sensor Networks 2007-2017)* (2007). The contactless smart card market is predicted to grow by 20% annually, according to published reports on a 2006 Frost & Sullivan study, entitled *World Contactless Smart Card Markets, F275-33*. Other institutions and research organizations, including Venture Development Corp. and Research & Markets, predict annual growth rates in the RFID industry of 25% to 33% through 2015.

The RFID market is truly global. There are, however, regions where the development and production of RFID solutions is stronger than others. For example, Germany, Austria, Switzerland and France have a strong and growing industry for RFID product development, production and sales. In North America, the development of both software and hardware RFID products to identify people, animals or goods is very active in the area around Boston and in Silicon Valley. Within Asia, China is poised to be both a primary manufacturer and consumer of mass manufactured RFID products because of the favorable manufacturing landscape and the sheer size of the market, as well as the continued concentration of urban population. IDTechEx has estimated a $5 billion market size for RFID products in China for 2007. A similar market opportunity exists in India as well. On the other hand, relatively sparsely populated areas and regions such as Australia have proven to be potentially large markets for animal tagging and tracking, demonstrating the global scale of the market.

Demand for High Value RFID Applications

The use of RFID technology for high value applications is growing, based on the requirements of governments and companies to identify and control individuals and access; the increasing inter-connection of different systems and identification components; as well as the desire of customer-oriented entities to further facilitate and speed up payment, client identification and admission. Overall, government mandates are the most significant driver of market growth, as they create the demand for cost effective and efficient ways to identify and track people, animals and goods.

Key areas for long-term growth and differentiation in RFID are:

People ID & Credentials applications that facilitate the identification and/or tracking of individuals or groups for access to networks, facilities or services*;* and

Non-People Applications applications that facilitate the identification and tracking of animals or things for purposes of quality control, asset management or physical protection

People ID & Credentials. People ID & Credentials can broadly be split into three further categories: i) national or citizen ID applications such as passports, national ID cards, health cards and social security cards; ii) enterprise and corporate ID such as physical and logical access control systems, company credit cards, vending systems and business services and iii) consumer applications such as public transport systems, credit and debit cards, loyalty cards and events admission systems. The market opportunity in these areas is for software providers, systems integrators and hardware suppliers whose systems can scale and provide systems and processes to handle large populations and ongoing transaction processing.

Non-People Applications. In the area of Non-People Applications, RFID tags increasingly are being used to identify specific entities such as pets, tools or stolen vehicles; manage sensitive substances such as waste or chemicals; and track entities such as laundry or livestock. These applications are not necessarily all new, but are only now being widely implemented and expected to experience strong growth. The market opportunity in this area is for software providers, systems integrators and hardware suppliers who can create solid and secure systems with safe interoperability and reliability.

Among the markets in which high value RFID applications can be used, mass transit, access control, payment and government ID are expected to experience significant growth.

Mass Transit. In many areas of the world, contactless cards used to pay fares and tolls in mass transit and highway systems have been the driving factor in consumer acceptance of contactless technology. Contactless cards have been introduced in many of the largest mass transit systems around the world, including the Sao Paolo transportation system, the Malaysian Road Toll System, the Singapore EZ Link, and the Oyster card in London. Such cards reduce traffic congestion, improve efficiency and reduce the need for people to handle cash, thereby improving security. Many passengers find the cards more convenient to use than traditional tickets. In addition, such cards can be combined with contactless payment functions (for use in restaurants and convenience stores, for example) or loyalty systems, which further increases passenger convenience. As such functions are combined, it is expected that contactless mass transit cards will become more sophisticated and eventually incorporate a microcontroller chip to enable the card to perform multiple functions.

Mass transit cards have historically accounted for the largest share of the contactless card market and have constituted the most practical and visible demonstration of the technology s potential. Although growth in the market for contactless mass transit cards is expected to continue, other contactless applications are expected to rival it for significance in the future.

Access Control. RFID technology is also commonly applied to regulate access to events and buildings through corporate or employee identification cards or key fobs. In addition to physical access control (e.g., to buildings), logical access control (e.g., to IT networks) is growing in importance as companies and governments seek to control access to their electronic files and computer systems. These factors are expected to contribute to growth in shipments of access control cards over the next few years.

Payment. As RFID technology has stabilized, become more standardized and found wider consumer acceptance, banks and other financial institutions have begun to use it in advanced applications. Compared to many forms of existing technology, RFID offers high data transmission capacity and speed, improved convenience and additional security features that make it ideal for use in sensitive applications, such as contactless payment systems. Various financial institutions have begun issuing RFID-based contactless payment cards which will eventually replace cards containing only the conventional magnetic stripe. For example, MasterCard (Paypass), Visa (Contactless Visa) and others have already begun rolling out contactless payment systems.

Contactless cards offer improved security compared to conventional magnetic stripe bank, credit and debit cards, as the microchips include encryption algorithms and are, therefore, more difficult to copy or forge.

Contactless cards also do not have to leave their owner s possession, which reduces the likelihood that illicit imprints of the cards will be made and makes such cards more convenient to use. Finally, as a result of a legal change in the U.S. that makes signatures unnecessary for purchases of less than $25, contactless card-based payment has caught on, since transactions using contactless cards are more quickly completed. Transaction speed is a distinct advantage in the case of contactless cards, compared to contact-based technologies (such as magnetic stripe cards or cards containing microchips which must be physically inserted in special card readers), especially for retailers with a high volume of low-value transactions. According to published research conducted by American Express, transactions using contactless payment cards are 53% faster than using standard magnetic stripe credit cards and 63% faster than cash transactions. Studies have also shown that the increased speed and convenience of using contactless payment cards leads consumers to use them for an average of 16%-17% more transactions by revenue, increasing the commissions earned by the issuing financial institutions.

In the European Union, the adoption of contactless payment cards is expected to be slower, due to the widespread use of contact cards using the EMV (Europay, MasterCard, Visa) standard. EMV-based contact cards also include enhanced security features, but are slower and less convenient than contactless payment systems. Because many retailers and banks invested heavily in upgrading their systems to make them compatible with this EMV-based technology, they are less likely to adopt the new contactless technology until it has first gained acceptance elsewhere. However, European financial institutions are expected to make the shift to contactless payment cards over the medium term.

Government ID (including ePassports). The security benefits of RFID technology are well-suited for use in passports, national ID cards and drivers licenses. RFID-enabled passports (ePassports) contain an embedded integrated circuit chip that is used to store and transmit identifying data, including optional biometric features such as pictures, fingerprints or iris scan information. Because ePassports are very difficult to forge and can store and quickly transmit a substantial amount of biometric information, they will make it more difficult for people to travel under assumed identities and will facilitate the processing of passengers at ports of entry. In 2003, the International Civil Aviation Organization (ICAO), a specialized agency of the United Nations that defines standards for electronic travel documents, selected contactless chips operating at 13.56 MHz in accordance with ISO 14443 as the standard for electronic passport technology. The components used to produce ePassports must be particularly robust and of high quality in order to ensure that the ePassport will continue to operate over the lifetime of the passport (usually ten years) despite the physical stress that often accompanies travel.

The RFID Value Chain

The RFID industry is fairly stratified, with various players occupying distinct niches in the value chain where they focus on their respective core competencies. The various components and processes of the value chain for RFID solutions are described below:

Transponders

Silicon chip components and wafers. Silicon chip components and wafers are manufactured by multinational chip manufacturers. This segment of the industry is very capital intensive. The individual chips from each silicon wafer must be packaged into a module before they can be processed by the inlay manufacturer. Most of the chip manufacturers provide these packaging services.

Antennae. The next step is fabricating and attaching an antenna for the transponder device. This is a critical step in the process because both the materials and geometry utilized for the antenna design as well as the method by which the leads are attached to the chip greatly affect the performance of radio frequency communication, reliability of the final transponder, and cost of the device. A great variety of intellectual property exists in this area with patents and process knowledge. Companies owning this knowledge can have significant competitive advantages in product performance and costs. In most cases, the methodology is very different for low frequency versus high or ultra high frequency devices, raising barriers for a single organization to easily migrate from one to another.

Inlay of chip modules and antennae. The chip modules are processed by inlay manufacturers who bond the chip module and an antenna to a carrier material or substrate, such as plastic, that will form part of the finished product, whether it is an ID card, a key fob, a smart label, a contactless credit card or an ePassport. Each application places different demands on the chip and antenna embedding process, depending on the carrier material and the required durability and reliability of the finished product. The different processes used to produce antennas (embedding, etching or printing) and the various techniques utilized by inlay manufacturers to connect antennas to chips (such as wire bonding or flip-chip) have distinct advantages and disadvantages with regard to these criteria. Utilizing the proper process is crucial for many RFID applications, both economically and practically. Unlike computers and mobile phones, for example, where the processing and memory chips are protected by a rigid casing and generally treated carefully by users, RFID-enabled products often have a very thin and flexible casing that provides limited protection. For example, workplace ID cards are often sat on and scratched by keys, laundry tags are exposed to water and high temperatures, contactless payment cards may be exposed to the sun and ePassports may be bent or otherwise deteriorate over a number of years.

Card manufacturers. Card manufacturers purchase sheets of inlays. The sheets are cut and processed by the card manufacturers in a lamination and printing process to produce functional RFID cards. At this stage, for example, the cards may be printed with a bank s logo and other information, but the cards do not contain personal information concerning the end-user. Increasingly, card manufacturers are being asked to install software (consisting of an operating system and application software) on the chips embedded in their cards. Card manufacturers sell the cards to system integrators and end customers (e.g., the owners of the access control or mass transit systems).

Secure printing houses. Governmental documents, corporate credentials, and credit cards, including ID cards, driver s licenses, credit/debit cards, loyalty cards with value, and passports are produced by secure printing houses. These secure printing houses can be private companies or governmental printers. To produce ePassports, secure printing houses purchase high security inlays from inlay manufacturers and incorporate them into the finished ePassport or chip card. Secure printing houses sell the completed passports or other secure ID cards to system integrators and national governments, who provide them to their citizens and corporate customers.

System integrators. System integrators purchase printed and laminated cards from card manufacturers, printed and assembled ePassport booklets from secure printing houses and, in certain instances, white cards from inlay manufacturers. To produce white cards, an inlay manufacturer conducts the lamination process and supplies a system integrator with functional, but blank, white cards. The system integrator personalizes the cards and ePassports by putting software (an operating system and application software such as security algorithms or keys, memory initialization or formatting, or specific application data) and relevant data on the embedded chips. This final step in the transponder value chain is also called initialization. The initialization or personalization process may also involve printing the end-user s name and picture on the card or ePassport. The system integrator supplies the finished cards to the client (e.g., a company installing a new employee security system) or to the end-user directly (e.g., cards issued to customers of a credit card issuing bank).

Readers

RFID reader design and construction typically reflects the needs of an application in form, function, and aesthetics. Although varied in appearance from one application to another, the basic functions and components of an RFID reader are similar. The first elements are very similar to a transponder since they perform the same radio frequency communication data transfer functions: antenna and chip. The other steps in the process include electronics design, firmware design, and packaging. These typically accommodate the needs of the application, including aesthetics and multiple device read handling, read range, form factors, power requirements, and environmental ambient conditions.

ID System Software and Interfaces

Some of the software associated with identification (ID) systems resides on the reader and/or the transponder, depending on its level of intelligence. Other software is at the application level to manage the database of user data

Table of Contents

and provide the tools to issue and track the use and transactions of the card. This can be a significant area of added value by providing systems and application support. In simpler applications this can be only a basic read capability, data formatting, and interfacing to an upstream communication network. In more complex, multi-application uses, it could include multi-communication protocols, different levels of security, authentication, encryption, memory management, operating system environment support for specific application needs, as well as complex ID/key management methods, database management, archiving, transaction proofing processing, and reporting. Typically, ID system software is modular and can be utilized across multiple applications, for example student transport, cafeteria, library and payment.

How Bluehill ID Addresses Opportunities in the RFID Market

Bluehill ID is actively pursuing a strategy of investing along the RFID value chain in order to acquire best practice companies of all production levels and combine their strategic and technical organizations, in order to create a market leading position in the RFID space.

Bluehill ID s Investment Approach

Bluehill ID s primary investment approach is to acquire the appropriate technologies to operate across several marketing segments of RFID, while remaining focused on the overall ID segment. In this way, Bluehill ID believes that it can gain advantage over other players who may be focused on only one market (e.g. access control or sports event ticketing). A thorough understanding of the RFID industry and technology places Bluehill ID in a position to select opportunities with a high probability of success and to drive consolidation of the market. There are virtually hundreds of companies with revenues below the 5 million range, and almost all of these players are positioned with a single technology or focused on one single vertical market. Bluehill ID believes that the RFID industry s tremendous growth potential and at the same time its high fragmentation offer tremendous opportunity for consolidation and the development of a leading market position. Additionally, Bluehill ID believes that it can optimize its capital manufacturing investment through the realization of synergies among its acquired companies, such as higher volumes of transponders and readers as well as access to a wider technology base.

Bluehill ID primarily aims to hold majority or significant minority positions in its investments, the latter typically combined with majority options. The geographic scope of potential investment is global, consistent with the reach of the RFID industry. Bluehill ID has and will typically acquire shares in selected, attractive growth companies in which Bluehill ID has an interest because the target company has or could develop an important market position and/or a product or product range with unique selling propositions, unique technology knowledge and production know-how or significant geographic access. Bluehill ID will predominantly look for players who have markets for their products already available. Following the partial or total acquisition of a target company, Bluehill ID will, jointly with the management of the acquired company, work on the one hand to further expand Bluehill ID s market reach and market position and on the other hand increase its product portfolio and co-operation with complimentary or comparable companies. Bluehill ID has hired experienced industry professionals to execute the integration of acquired companies into Bluehill ID and to drive operational improvements where possible.

In addition to its strategic and holistic approach to the market, Bluehill ID has the full support and committed experience of multiple important individuals with significant knowledge and experience in the RFID industry. Bluehill ID aims to fully use this strength to pursue its strategy including an active hands-on involvement in Bluehill ID Group Companies, especially in driving growth initiatives and facilitating access to talent and infrastructure. In particular, Bluehill ID aims to actively influence and support the management of companies within the group in order to help them focus their business plans and execution. On the operational side, Bluehill ID will typically, but not exclusively, inject strategic focus and/or management talents in sales and in general management to generate and facilitate profitable growth. Cross-company savings in remote sales activity (e.g. shared sales office in Latin America or Middle

East), patent and IP portfolio management, trade shows and publicity are typically key areas Bluehill ID will look at in order to generate efficiencies and to help the managers of acquired companies focus on their core growth activity.

While Bluehill ID will normally only invest in more mature companies rather than early start-ups or uncertain technologies, Bluehill ID will occasionally make relatively small minority only investments in selected RFID

Table of Contents

technology activities when they are very closely related to Bluehill ID Group Companies or are of significant interest to the industry and therefore to Bluehill ID. By virtue of Bluehill ID s wide contacts in the industry Bluehill ID comes across numerous early stage opportunities. The knowledge of the industry and technology allows Bluehill ID to quickly assess promising ideas and domains within the industry.

Leveraging Synergies

An organization with access to technology across the RFID value chain can greatly benefit from the synergies made possible from that know-how. Bluehill ID s buy, build and grow strategy relies on the ability to create synergies in multiple areas, including technology, operations, branding, sales and marketing and administration.

Technological Synergies

In RFID, expertise in core technologies can be brought to bear on new design requirements across products and applications. For example, experience in radio frequency design, antenna design, and antenna fabrication are equally applicable to transponder and reader design. Selection of materials, geometries, connection methods, and test methodologies can easily be applied to various transponder and reader designs. Similarly, using best practices and experienced people in hardware, software, and packaging design across products, provides for economies of scale and reduced time of development. This leads to faster time to market for product improvements and new products. Bluehill ID approaches this from a corporate perspective by having an executive coordinating technology development across the group of companies and also by having a technology center in Chennai, India that the Bluehill ID Group Companies can tap into for development.

A significant benefit of core technology expertise, in addition to product design, is in the design of automated assembly and test equipment. Indeed a great deal of the intellectual property associated with RFID is in advanced manufacturing methods and equipment. Improved methods that make the manufacturing of devices faster, less expensive, or more robust provide a significant advantage in the field. Using these improved methods across transponder and reader families improves source economies, service and maintenance requirements, and builds higher quality products. A number of patents have been developed and filed in this area for this purpose.

The RFID industry is fast moving and the technology is evolving. Intellectual Property (IP) is being developed in many areas having to do with materials, designs, and methodologies. A diverse organization with access to a wider scope of IP can make more complete use of the technology and also foster greater IP development from the close association with others in the field. Cross-pollination is a well known catalyst for innovation and faster developments. Patents and overall knowhow are exposed to the overall group and are available for cross-licensing. Bluehill ID also has a corporate IP Committee to evaluate new patent ideas and coordinate patent filings and dissemination worldwide.

Research and advanced development costs can be shared across entities and markets. The risks associated with new developments can also be spread across different products and markets. Being able to predict a particular development or the timing of market acceptance for a given application is very difficult. Having more than one potential use can mitigate risk by giving more time for the market or the technology to develop. This is handled through the technology center in India.

Operating Synergies

Through its Bluehill ID Group Companies, Bluehill ID produces transponders and readers for multiple applications and therefore can consolidate its sourcing of raw material such as ICs, antenna wire, circuit boards and housings. In addition, in-house manufacturing of virtually identical products serving multiple markets will allow for improved manufacturing efficiencies through higher capacity utilization. Component sourcing, for example, is accomplished through ACiG Technology, one of the Bluehill ID Group Companies focused on integrated circuit and component distribution, which maintains direct supply contracts with major manufacturers such as NXP and others.

Table of Contents

Branding Synergies

To date, the RFID market has been fragmented, with a large number of small companies focusing on narrow markets or limited elements in the value chain. Many well established companies have added RFID products to their offerings along with their other traditional technologies but remain faithful to their target markets and so only address limited parts of the RFID market. Thus, a tremendous opportunity exists to create a significant brand in RFID. By taking a unified global view of marketing and branding from its inception, Bluehill ID is positioned to exploit the inherent strong synergies created. The key elements of Bluehill ID s market communications and branding strategy comprise:

Key Elements	Execution Strategy
create a master brand to span a portfolio of product offerings	clear, consistent and cohesive messaging across all product companies that is mutually reinforcing
leverage alliances and partnerships across the entire value chain	optimize marketing expenditures
use knowledge generated from one market in other verticals	build strong global brand equity
provide solutions across a broad span of vertical markets	reduce costs, consolidate sourcing
	cross selling opportunities
	acquire deeper market insights and competitive intelligence
	exploit a wider scope of opportunities (grow fast)
	reduce vulnerability to variable adoption rates
	more quickly exploit emerging markets
	success can be transferred and replicated across verticals

An example of this can be seen with Bluehill ID s Multicard brand. This effort began with the acquisition of four different companies providing similar products and services of cards, readers, and software for credential issuing and ID management. The Multicard brand is now being utilized in Germany, Switzerland, Netherlands, and Australia.

Sales and Marketing Synergies

In RFID the experience developed in one market segment is often repeated in other market segments. Most end users who switch from other ID solutions to RFID do this based on performance and economic criteria. While it is unlikely that the sales and marketing personnel of Bluehill ID will possess profound competence in the processes of a gas bottling or waste management company, they are able to discuss, with authority, the issues relating to transponders and readers used in both markets. The sales force is able to advise a customer proposing to install an RFID system for a football stadium; which will integrate use by season ticket holders and stadium retailers as well as fans with a loyalty card allowing discounts and privileges from out-of-stadium retailers. Similarly, the sales people are in a position to guide an end user wishing to develop an RFID system to be used by a country or health authority that will address the needs of insurers, doctors, nurses and pharmaceutical professionals. End users and integration OEMs can all benefit from Bluehill ID s experience across multiple sectors.

General Administration Synergies

On the financial and administrative side, Bluehill ID aims at an optimized capital investment, be it through the optimization of people, plants, or manufacturing investments through consolidated locations. Bluehill ID s ever increasing size, scale, and reach also increases its ability to make investments and acquisitions in the highly fragmented RFID environment. In making its acquisitions, Bluehill ID conducts a very detailed and significant up-front effort to make sure that the various synergies of both growth and efficiency are realistic. In doing so, Bluehill ID will typically look in detail at the management of any potential target to make sure both the quality of management is above average and the support/commitment to the common overall goals and the cultural fit within Bluehill ID is attainable.

Bluehill ID s Coverage of the RFID Value Chain

Bluehill ID s acquisition strategy has resulted in initial coverage of several important areas of the RFID value chain:

Market Segment	Bluehill ID s Coverage
Silicon chip components and wafers	*ACiG Technology* has a direct business partnership with NXP, the leading semiconductor manufacturer in RFID and NFC.
Antennae	*TagStar* expertise in antenna design and material packaging in HF and UHF.
	Scolis Technology Center expertise in antenna design in LF and HF for passports, readers, desktop applications.
Inlay production	*ACiG Technology* supplier and value added distributor of RFID and smart card ICs, inlays and other components. Sourcing partner for Bluehill ID providing the other members with RFID components.
	TagStar know how in the design and manufacture of RFID inlays for cards used in ski applications, event tickets and transportation tickets and passes.
Card Personalization / Secure Printing Houses	*Multicard* (Switzerland, Australia) suppliers of multi-functional smart card solutions for secure identification programs. In-house capabilities for credential issuance, personalization and fulfillment services for the consumer, government and corporate markets. Provider of online enrollment services and portable biometric data capture equipment for enrollment of ePassport and other government ID and corporate ID applications.
Readers	*ACiG Technology* supplier and value added distributor of RFID reader modules.
	Arygon manufactures advanced RFID reader modules for physical and logical access, transit and event ticketing, payment, government ID, industrial, medical and NFC applications.

	Syscan ID producer and supplier of RFID mobile wand readers (electronic ID readers) for livestock and industrial applications.
ID System Software and Interfaces	*Multicard* (Germany, Netherlands, Australia) worldwide supplier of multi-functional smart card solutions for identification programs and for payment, stadiums, and ticketing/voucher/loyalty systems. A supplier of hardware and software for ID/key management, database management, archiving, transaction processing, and reporting.

Table of Contents

Research and Development

To date, Bluehill ID has made substantial investments in research and development, particularly in the areas of inlays, readers, and software systems. In inlays, Bluehill ID is currently expanding its offerings with different antenna configurations and designs in high-frequency inlays and is conducting research and development activities in ultra high-frequency inlays. In the reader business, Bluehill ID is currently accelerating the development of new products, in particular, a next-generation ePassport reader, and multi-functional and ISO complaint smart card readers. In software, Bluehill ID s application software offerings are being expanded to not only include ID management but also to provide loyalty, ticketing, and transaction processing functions. Bluehill ID s engineering design teams work cross-functionally with marketing managers, applications engineers and customers to develop products and product enhancements to meet customer and market requirements. Bluehill ID also strives to develop and maintain close relationships with key suppliers of components and technologies in order to be able to quickly introduce new products that incorporate the latest technological advances. Bluehill ID s future success will depend upon its ability to develop and to introduce new products that keep pace with technological developments and emerging industry standards while addressing the increasingly sophisticated needs of its customers.

Bluehill ID focuses the bulk of its research and development activities on the development of products for new and emerging market opportunities. Research and development capitalized and operating expenses were approximately $449,000 for the year ended December 31, 2008 (not including Bluehill ID corporate research and development overhead functions) and there were no research and development expenses for the year ended December 31, 2007, given the limited operations during that period. As of June 30, 2009, Bluehill ID had 22 full-time employees engaged in research and development activities, including software and hardware engineering, testing and quality assurance and technical documentation. The majority of Bluehill ID s research and development activities for smart card reader and ePassport reader products occur in Chennai, India, the majority of research and development activities for inlays occur in Sauerlach, Germany and for software systems in Villingen, Germany and Rotterdam, Netherlands.

Manufacturing and Sources of Supply

Bluehill ID utilizes the services of contract manufacturers in Germany and India to manufacture its smart card reader and ePassport reader products and components. Inlay products are generally assembled by TagStar s internal manufacturing organization, using locally and Far East sourced components. Bluehill ID has implemented a global sourcing strategy through ACiG Technology that it believes enables Bluehill ID to achieve economies of scale and uniform quality standards for its products, and to support gross margins. In the event any of Bluehill ID s contract manufacturers are unable or unwilling to continue to manufacture its products, Bluehill ID may have to rely on other current manufacturing sources or identify and qualify new contract manufacturers. Any significant delay in Bluehill ID s ability to obtain adequate supplies of its products from current or alternative sources would harm its business and operating results.

Bluehill ID believes that its success will depend in large part on its ability to provide quality products and services while ensuring the highest level of security for its products during the manufacturing process. Bluehill ID has formal quality control programs to satisfy its customers requirements for high quality and reliable products. To ensure that products manufactured by others are consistent with its standards, Bluehill ID manages all key aspects of the production process, including establishing product specifications, selecting the components to be used to produce its products, selecting the suppliers of these components and negotiating the prices for certain of these components. In addition, Bluehill ID works with its suppliers to improve process control and product design. As of June 30, 2009, Bluehill ID had 30 full-time employees engaged in manufacturing and logistics activities, focused on coordinating product management and supply chain activities between Bluehill ID and its contract manufacturers.

On an ongoing basis, Bluehill ID analyzes the need to add alternative sources for both its products and components. Even so, Bluehill ID relies upon a limited number of suppliers for some key components of its inlay and smart card reader products. For example, Bluehill ID currently utilizes external suppliers to produce chips and obtains antenna components from third-party suppliers in Asia.

Table of Contents

Wherever possible, Bluehill ID has added additional sources of supply for these components. However, a risk remains that Bluehill ID may be adversely impacted by an inadequate supply of components, price increases, late deliveries or poor component quality. Additionally, components may not be available in a timely fashion or at all, particularly if larger companies have ordered more significant volumes of the components, and if demand is great, higher prices may be charged for components. Disruption or termination of the supply of components or software used in Bluehill ID s products could delay shipments of its products, which could have a material adverse effect on the Bluehill ID s business and operating results. These delays could also damage relationships with current and prospective customers.

Competition

The RFID identification and security markets are competitive and characterized by rapidly changing technology, as well as fragmentation of solutions providers. Bluehill ID believes that competition in these markets is likely to intensify as a result of anticipated increased demand for security and identification solutions. Bluehill ID currently experiences competition from two major sources: industry providers and investment companies.

The most significant competition comes from large industry players in both Europe and America, including: ASSA ABLOY Group, a manufacturer of RFID components and security solutions; Smartrac, a leading supplier of RFID inlays; KSW Microtec AG, one of the world s leading suppliers of RFID components and inlays for secure cards, documents and other form factors; Gemalto, a provider of diverse digital security solutions, and; Giesecke & Devrient, a leading supplier of banknote paper, banknote printing, currency automation systems, as well as smart cards and complex system solutions.

Bluehill ID also considers all industrial and investment companies pursuing consolidation strategies in the RFID sector with a similar business model to Bluehill ID to be competitors. A large number of companies are active in the classical investment business with emphasis on acquisition, holding and sale of companies. Additionally, private investors, venture capital companies, private equity firms, hedge funds and strategic investors can represent a competition to Bluehill ID on specific, single investments. Additionally, the identification market and in particular RFID continue to attract significant investments from venture capital firms. A number of private equity companies have also made investments in RFID, including Invision (Switzerland), FSI and Iris (France), DEWB, Cornerstone Capital and Ventizz (Germany), Pod Holding (Sweden), as well as several other U.S.-based private equity houses.

While Bluehill ID believes that it competes favorably compared with its competitors in terms of return on investment, it may not be able to continue to successfully compete due to a variety of factors. Among these are the fact that large industry providers in particular may have greater financial resources than Bluehill ID, that some of these companies have product portfolios that are well established in the market and have greater access to sales and distribution channels. Competitive pressures Bluehill ID faces could materially and adversely affect Bluehill ID s business and operating results.

Proprietary Technology and Intellectual Property

Bluehill ID s success depends significantly upon its proprietary technology. Bluehill ID 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. Although Bluehill ID often seeks to protect its proprietary technology through patents, it is possible that no new patents will be issued, that Bluehill ID s proprietary products or technologies are not patentable, and that any issued patent will fail to provide Bluehill ID 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 Bluehill ID may be required to use litigation to protect its proprietary technology. This may result in Bluehill

ID incurring substantial costs and there is no assurance that Bluehill ID would be successful in any such litigation. Despite Bluehill ID 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

127

of the U.S. Because many of Bluehill ID s products are sold and a substantial portion of its business is conducted outside the U.S., Bluehill ID s exposure to intellectual property risks may be higher. Bluehill ID s means of protecting its proprietary and intellectual property rights may not be adequate. There is a risk that Bluehill ID s competitors will independently develop similar technology, duplicate its products or design around its patents or other intellectual property rights. If Bluehill ID is unsuccessful in protecting its intellectual property or its products or technologies are duplicated by others, its business could be harmed.

In addition, Bluehill ID may from time to time receive claims that it is infringing upon third parties intellectual property rights. Future disputes with third parties may arise and these disputes may not be resolved on terms acceptable to Bluehill ID. As the number of products and competitors in Bluehill ID s target markets grow, the likelihood of infringement claims also increases. Any claims or litigation may be time-consuming and costly, divert management resources, cause product shipment delays, or require Bluehill to redesign its products, accept product returns or to write off inventory. Any of these events could have a material adverse effect on Bluehill ID s business and operating results.

Bluehill ID owns approximately 12 patent families (designs, patents, utility models, and exclusive licenses) comprising a total of approximately 20 individual or regional filings, covering products, mechanical designs and ideas for its inlays, readers, and ID software businesses. None of Bluehill ID s patents are material to its business.

Backlog

Bluehill ID typically does not 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. Sales are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time. Bluehill ID s customer contracts generally do not require fixed long-term purchase commitments. In view of order and shipment patterns, and because of the possibility of customer changes in delivery schedules or cancellation of orders, Bluehill ID does not believe that such agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

Employees

As of June 30, 2009, Bluehill ID had 109 full-time employees, of which 22 were engaged in engineering, research and development; 24 were engaged in sales and marketing; 30 were engaged in manufacturing and logistics; and 33 were engaged in general management and administration. Bluehill ID is not subject to any collective bargaining agreements and, to Bluehill ID s knowledge, none of its employees are currently represented by a labor union. To date, Bluehill ID has experienced no work stoppages and believes that its employee relations are generally good.

International or Global Operations; Properties

Bluehill ID operates globally, with group headquarters in St. Gallen, Switzerland. Additionally, Bluehill ID s individual companies maintain facilities in Australia, Germany, the Netherlands, Switzerland, Sao Paulo, Brazil, Montreal, Canada and Miami, Florida. Bluehill ID also has a research and development facility in Chennai, India.

Legal Proceedings

From time to time, Bluehill ID could become subject to claims arising in the ordinary course of business or could be a defendant in lawsuits. While the outcome of such claims or other proceedings cannot be predicted with certainty, Bluehill ID s management expects that any such liabilities, to the extent not provided for by insurance or otherwise, will not have a material adverse effect on its financial condition, results of operations or cash flows.

128

Table of Contents

BLUEHILL ID MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

The following discussion and analysis of Bluehill ID s financial condition and results of operations should be read together with Selected Historical and Pro Forma Combined Financial Data Selected Historical Financial Data of Bluehill ID and the Bluehill ID financial statements and related notes as well as the risk factors set forth under the caption Risks Relating to Bluehill ID s Business appearing elsewhere in this proxy statement and prospectus.

Company Overview

Bluehill ID is a Swiss industrial holding group for the acquisition of companies in the radio frequency identification (RFID)/identification and security industries. Bluehill ID targets controlling stakes in small to medium-sized companies in the RFID/identification and security space to support its buy, build and grow strategy on a global scale. Bluehill ID was registered in March 2007 in Switzerland and has traded on the Open Market of the Frankfurt Stock Exchange since December 2007 under the symbol BUQ. Bluehill ID was initially established as a fund structure and had arrangements with a separate management company, BH Capital Management AG, which received a percentage of Bluehill ID s profits and annual options. The services agreement with BH Capital Management AG was terminated effective as of July 1, 2009.

Bluehill ID Group Companies have a broad range of products and services spanning the RFID and smart card value chain including readers, transponders, inlays, smart cards and animal ID. Bluehill ID has a global customer base that includes governments, non-profit organizations and companies in many industries and applications that utilize cards and readers in loyalty programs, ticketing, stadiums, skiing, corporate identification, physical and logical access control, passport control, and other applications.

Bluehill ID Group Companies generally conduct their own sales and marketing activities in the market segments in which they compete in. Products are sold and supported through a combination of direct and indirect channels. In some cases the companies utilize a direct sales and marketing organization, in others this is supplemented by a dealer/systems integrator distribution channel, value added resellers, resellers and Internet sales. Bluehill ID Group Companies have direct sales staff that solicits prospective customers, provides technical advice and support with respect to its products and work closely with end customers, distributors, integrators and some OEMs. Bluehill ID Group Companies have the technical background, industry knowledge, and product expertise to assist the end user or dealer installer in the selection and application of solutions to meet their RFID/identification and security needs. Bluehill ID also provides technical support and training to its dealers and customers.

Bluehill ID sales address multiple market segments and Bluehill ID is not reliant on a single segment or single customer. Sales geographically are concentrated in Europe, Brazil, Australia, and, to a lesser extent, in Canada and the U.S.

Bluehill ID Group Companies sell products and solutions that span the RFID/identification and security value chains. Bluehill ID s brands have been grouped as follows: ACiG Technology, Arygon Technologies, Multicard, TagStar Systems and Syscan ID.

ACiG Technology is an independent supplier and value added distributor of RFID and smart card integrated circuits, inlays, reader modules and other components.

Arygon is an early entrant and innovator in NFC/MIFARE RFID reader technology and related project services. Arygon manufactures advanced RFID reader modules for physical and logical access, transit and event ticketing, payment, government ID, industrial, medical and NFC applications and utilizes the development services of another Bluehill ID Group Company, SCOLIS, based in Chennai, India.

Multicard is a supplier of multi-functional smart card solutions for secure identification programs with in-house capabilities for credential issuance, personalization and fulfillment services for the consumer, government and corporate customers.

TagStar Systems is an RFID transponder manufacturer based in Germany and holds significant know-how in the design and manufacture of RFID inlays. Syscan ID is a producer of RFID ISO wand readers, also known as electronic ID readers (EID) for livestock. Syscan ID is centered on animal ID, traceability, country of origin labeling (COOL) and age verification, as well as in industrial applications where a durable RFID hand-held reader is needed.

Table of Contents

Bluehill ID s predecessor companies are Multicard GmbH, Multicard AG and TagStar Systems GmbH. All three companies were acquired by Bluehill ID effective as of June 30, 2008 and marked Bluehill ID s first acquisitions. The three companies represent Bluehill ID s key focus areas of ID management and RFID and form the foundation of the Bluehill ID structure. The predecessor companies address strategic segments of the RFID and smart card value chain for Bluehill ID. Multicard GmbH and Multicard AG serve the ID management and integration markets and TagStar is an RFID transponder manufacturer. The Multicard brand has expanded globally and entered into the Netherlands and Australia. TagStar represents a significant area of technological innovation and development for the group and is demonstrating growth into new markets and investing in additional sales resources.

Bluehill ID prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standard Board (IASB). Results are reported in its principal currency, which is the Euro. On October 13, 2009, the prevailing exchange rate of U.S. dollars into Euros was 1.4886 U.S. dollars per Euro.

Industry Overview

Based upon its market research, Bluehill ID believes there are hundreds of companies in the RFID industry with revenues below the 5.0 million range, almost all of which are positioned with a single technology or focused on one single vertical market. The opportunities that exist in the RFID market include both possibilities to use the technology more broadly and in increasing numbers of applications, and the potential to build a global, market leading business that is capable of addressing multiple areas of the RFID value chain. RFID technology has the potential to address an array of higher value applications where providers can differentiate themselves while realizing higher revenue and profit returns. Addressing these higher value applications requires coordination between the different parts of the RFID value chain, and to date this is being addressed primarily by smaller companies on an ad hoc basis. This limits both the success of the individual players and the growth of the RFID market itself.

Bluehill ID Approach

To capitalize on the tremendous potential of the RFID/identification markets, Bluehill ID has since its inception successfully completed a significant number of acquisitions and subsequently integrated them into the company. Bluehill ID s goal is to become the signature company in identity management and RFID technologies across the globe. Bluehill ID actively supports its brands injecting industry know-how, management experience and capital for the companies to collaborate and be responsive to the changing customer demands rather than try to compete on a standalone basis offering niche products to local markets.

Bluehill ID expects the demand for identification in general and RFID in particular to continue to grow by 10-15% per year in value and expects these markets to be the significant driver of growth in its future business. The RFID, identification and security markets are competitive and characterized by rapidly changing technology as well as fragmentation of solutions providers. Bluehill ID believes that competition in these markets is likely to intensify as a result of anticipated increased demand for security and identification solutions. During fiscal year 2008, Bluehill ID strengthened and enhanced many of its head office functions including finance and accounting, marketing, project management and merger and acquisition capabilities to better position it to address current and future market opportunities.

Additionally, Bluehill ID believes that it can optimize the capital investment in manufacturing by its subsidiaries through the realization of synergies among the Bluehill ID Group Companies, such as higher volumes of transponders and readers as well as access to a wider technology base. Bluehill ID has benefited from synergies in several areas including technology, operational, branding, sales and marketing and general administration. Due to its continuing efforts in synergy extraction and increased collaboration across the Bluehill ID Group Companies, Bluehill ID expects that these activities will continue to benefit the operating performance of the company and increase profitability in the near future.

Critical Accounting Policies and Estimates

The discussion and analysis of results of operations and liquidity and capital resources are based on the Bluehill ID consolidated financial statements, which have been prepared in accordance with IFRS (as adopted by the IASB).

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Bluehill ID management bases their estimates on historical and anticipated results and trends and on various other assumptions that they believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from those estimates.

The following represents a summary of Bluehill ID s critical accounting policies, defined as those policies that Bluehill ID management believes are: (a) the most important to the presentation of their financial condition and results of operations, and (b) that require management s judgment, often as a result of the need to make estimates about the matters that are inherently uncertain. The most critical accounting estimates include revenue recognition, valuation of inventories, valuation of investments, valuation of call options related to Bluehill ID and the valuation of deferred tax assets. Each of these policies is discussed below, as well as the estimates and judgments involved. There are also other policies that management considers key accounting policies; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require management to make estimates or judgments that are difficult or subjective.

Revenue Recognition

Bluehill ID derives revenue from sales of products and services. Currently, over 90% of revenue is from sales of hardware. The following summarizes the major terms of the contractual relationships with customers and the manner in which Bluehill ID accounts for sales transactions.

Bluehill ID revenues arise from products that are manufactured, packaged, delivered and invoiced against specific customer orders. Bought-in products are similarly packaged, delivered and invoiced against specific customer orders. The risks and rewards are transferred to the customer at the time of delivery and invoicing and revenue is recognized at that time. Bluehill ID Group Companies currently have no long term contracts that require percentage completion revenue recognition. Revenue is recognized to the extent that it is probable that the economic benefits will flow to Bluehill ID and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Hardware revenue consists of the sale of various hardware including the readers, transponders, smart cards, inlays and other identity management and RFID technologies.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest Income. Revenue is recognized as interest accrues (using the effective interest method). Interest income is included in finance revenue in the income statement.

Service Revenue. Service revenue is generated from the sale of professional services. Generally, services revenue, which includes engineering services and consultancy services, is recognized upon delivery of the services, provided all other revenue recognition criteria noted above have been met. If the professional service project includes independent milestones, revenue is recognized as milestones are met and upon acceptance from the customer.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, and consist primarily of raw materials, work-in-process and finished goods. Market is determined by comparison with recent sales or net realizable value.

Table of Contents

Such net realizable value is based on management s forecasts for sales of Bluehill ID s products in the ensuing years. Bluehill ID operates in an industry characterized by technological change. Should the demand for Bluehill ID s products prove to be significantly less than anticipated, the ultimate realizable value of Bluehill ID s inventory could be substantially less than amounts in the accompanying balance sheets. Bluehill ID periodically reviews the age and turnover of its inventory to determine whether any inventory has become obsolete or has declined in value and records a charge to cost of revenues for known and estimated inventory obsolescence.

Financial Assets

Initial recognition. Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables. Bluehill ID determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date such as, for example, the date that the company commits to purchase or sell the asset. Bluehill ID s financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments.

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognized in the income statement.

Taxes

Current income tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax. Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Valuation of Bluehill ID Call Options

As a result of an agreement to terminate a services agreement between Bluehill ID and BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch, a total of 3,914,790 call options for 3,914,790 bearer shares of Bluehill ID AG were issued to BH Capital Management AG as compensation pursuant to the Call Option Agreement. This termination agreement included a change to the options already issued and all options issued have an exercise period of five years from June 2009. The strike price of all issued call options is CHF 1.00 per option. An early exercise of the option is possible anytime (American Options). The financial statements reflect the costs for these options. The average value per option is 0.3217 and this resulted in an additional 575,129 being charged to the Consolidated Income Statement in the six months ended June 30, 2009. Under the terms of the Business Combination Agreement with SCM, upon consummation of the business combination, these options are expected to be converted at the share exchange ratio into options to acquire shares of SCM.

Because the fair value of the received services cannot be reliably determined, the fair value of the granted equity instrument is used as a reference. The options are not directly tied to the length of service so the received services are entered at full value with an according change in equity. The fair value of the granted stock options at the time of provision is determined by using a binominal model according to Cox-Ross-Rubinstein. Volatility measure used was obtained by reference to comparable companies for a period equal in length to the period of the options.

The following parameters were used for calculating the value of the options:

Number of options in 2007 and 2008	2,526,500
Number of options in 2009	1,388,290
Issue Date	June 30, 2009
Duration	Five years
Expiration Date	June 30, 2014
Exercise Price	CHF 1
Share Price	CHF 1
Volatility	54.57%

Interest Rate	2.87%
Currency Exchange Rate (CHF-EUR)	0.6472

Table of Contents

Business Combinations

Business combinations are accounted for using the purchase method of accounting. The cost of an acquisition is measured at fair value of the assets, given equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over Bluehill ID s share in the net fair value of the acquiree s identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Bluehill ID s cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Results of Operations

Comparison of Six Months Ended June 30, 2009 and 2008

The following table sets forth Bluehill ID s net revenue, gross profit, and gross profit margin for the six months ended June 30, 2008 and June 30, 2009.

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Euros in thousands)	unaudited
Net revenue	7,017	0
Gross profit	3,037	0
Gross profit percentage	43.3%	N/A

Revenue

Net revenue for the six months ended June 30, 2009 was 7.0 million. During the six months ended June 30, 2008, Bluehill ID had not completed any acquisitions and therefore the net revenue was zero. The net revenue for the first six months of 2009 included six-months contribution from all the operating subsidiaries except for Fastcards which was acquired at the beginning of February 2009. A number of the subsidiaries have a seasonality in their sales that is heavily weighted to the second half of the year.

In the first six months of 2008, the predecessor companies (Multicard AG, Multicard GmbH and TagStar GmbH) had unaudited net revenues of 3.330 million.

During the first six months of 2009, the majority of Bluehill ID s revenue came from sales to a variety of customers in the commercial, industrial and government markets primarily in Europe and to a lesser extent in Brazil, Canada and Australia. Bluehill ID is starting to see the positive effects of the integration work done following the acquisitions which has resulted in improved performance from the operating companies. This includes using the widespread geographical presence of the Bluehill ID Group Companies to offer additional channels to market and common sourcing policies, in particular for silicon chips.

During the first six months of 2009, 52% of the net revenue was derived from the RFID Technology Products segment and 48% from the ID Integration and Services segment.

Table of Contents

More than 65% of the net revenue is derived from companies operating in Euros, the Bluehill ID s reporting currency. In fiscal year 2008, the net revenue derived from companies operating in Euros was 53%.

Gross Profit

Bluehill ID s gross profit is calculated after charging the costs of materials used in manufacture. Gross profit for the six months ended June 30, 2009 was 3.0 million. The gross margin in the first six months of 2009 was 43.3%. There was no net revenue and no gross profit in the first six months of 2008 as there were no operating companies within the group at the time.

In the first six months of 2008, the predecessor companies (Multicard AG, Multicard GmbH and TagStar GmbH) had unaudited gross profit of 1.419 million (42.6%).

Gross margin in the RFID Technology Products segment was 34.4% and the gross margin in the ID Integration and Services segment was 55% in the first six months of 2008.

The gross profit of the acquired subsidiaries improved during the period following acquisition. Using the growing strength of the consolidated group, a number of key supply chain initiatives were launched to reduce the cost of materials, such as common sourcing and direct contract for the sourcing of silicon for the Bluehill ID Group Companies.

Factors that could affect gross profit in the future include competition, the volume of sales in any given quarter, product configuration and mix, the availability of new products and the cost and availability of components. Any one of these factors could create more variability in Bluehill ID gross profit than has historically been the case.

Operating Expenses

Research and Development.

Research and development (R&D) expenses consist primarily of employee compensation.

	Six Months Ended June 30, 2009 (Euros in thousands)	Six Months Ended June 30, 2008 unaudited
R&D Expenses	278	0
Percentage of revenue	4%	N/A

Research and development expenses in the six months ended June 30, 2009 were 0.3 million, or 4% of revenue. There were no research and development expenses in the first six months of 2008.

Projects are in place to develop new products that address Bluehill ID s customers changing requirements and Bluehill ID expects to continue to make significant investments to enhance its product offerings using the development teams of Scolis in Chennai, India, TagStar in Germany and internal and external resources for Multicard companies in the Netherlands, Australia, Germany and Switzerland.

Selling, Marketing and General and Administrative.

Selling, marketing and general and administrative (SG&A) expenses consist primarily of employee compensation for the sales, marketing and general and administrative functions, expenses related to the running and administration of Bluehill ID as well as sales support, technical support, training and market development, as well as general facilities expenditures and professional fees arising from legal, auditing, investor relations and other consulting services.

	Six Months Ended June 30, 2009	**Six Months Ended June 30, 2008**
	(Euros in thousands)	**unaudited**
Expenses	4,431	558
Percentage of revenue	63.2%	N/A

135

Total selling, marketing and general and administration expenses in the six months ended June 30, 2009 were 4.4 million, or 63.2% of revenue. The increase in the costs from the same period of 2008 was a result of the consolidation of the acquired subsidiaries, together with strengthening the Bluehill ID team in order to manage the further acquisition and organic growth of Bluehill ID.

Total selling, marketing and general and administration expenses in the six months ended June 30, 2008 was 0.6 million, representing the costs of Bluehill ID corporate only. There were no subsidiary company expenses in the first half of 2008.

Depreciation and Amortization

Depreciation and amortization of intangible assets in the first six months of 2009 was 0.329 million. There was no depreciation and amortization of intangible assets in the first six months of 2008.

Other (Loss) Income

Other expenses in the first six months of 2009 included 3.277 million for termination of the BH Capital Management AG services agreement. This is a one-time fee and the cancellation of the services agreement will reduce the expenses going forward. In addition, the costs of the options issued in connection with the services agreement and the termination agreement amounted to 0.6 million.

There was consolidated other income in the first six months of 2009 of 0.7 million resulting, principally, from reversal of impairment of a production machine at TagStar, together with taking to the income statement the excess of acquirer s interest in fair value of net assets. There was no other operating income or loss in the first six months of 2008 as no subsidiaries existed at that time.

The net financing costs in the first six months of 2009 amounted to 0.1 million. Net financing income in the first six months of 2008 was 0.2 million.

Income Taxes

Income tax expense for Bluehill ID in the first six months of 2009 was 0.1 million. There was no income tax expense in the first half of 2008.

Comparison of Fiscal Years Ended December 31, 2008 and 2007

The following table sets forth Bluehill ID s net revenue, gross profit and gross profit margin for the twelve month periods ended December 31, 2007 and 2008.

	Year Ended December 31, 2008	Year Ended December 31, 2007 unaudited
	(Euros in thousands)	
Net revenue	5,926	0
Gross profit	2,600	0
Gross profit percentage	43.9%	N/A

Revenue

Net revenue for the fiscal year ended December 31, 2008 was 5.9 million. Bluehill ID had no operating companies in 2007 and the net revenue in 2007 was therefore zero. The net revenue in 2008 derived from six months contribution from TagStar, Multicard GmbH and Multicard AG together with three months contribution from ACiG Technology in Brazil together with its subsidiary in the USA.

Bluehill ID was formed in 2007 and began trading over-the-counter (Open Market) at the Frankfurt Stock Exchange in December 2007. The activities of Bluehill ID until the end of the first half of 2008 were primarily focused on fund raising, recruitment, accomplishing the approval of a German prospectus, and targeting of acquisitions and negotiations for the company s first acquisitions (which were completed at the end of June 2008).

Table of Contents

During fiscal year 2008, 65% of the net revenue was derived from the RFID Technology Products segment and 35% from the ID Integration and Services segment.

Gross Profit

Bluehill ID s gross profit is calculated after charging the costs of materials used in manufacture. Gross profit for fiscal year 2008 was 2.6 million. The gross margin percentage in 2008 was 43.9%. Bluehill ID had no operations in 2007 and, therefore, there was no gross profit in 2007.

The gross profit of the acquired subsidiaries improved during the period following acquisition. Using the growing strength of Bluehill ID, a number of key supply chain initiatives were launched to reduce the cost of materials, such as common sourcing and direct contract for the sourcing of silicon for the Bluehill ID Group Companies.

Factors that could affect gross profit in the future include competition, the volume of sales in any given quarter, product configuration and mix, the availability of new products and the cost and availability of components. Any one of these factors could create more variability in Bluehill ID gross profit than has historically been seen.

Gross margin in the RFID Technology Products segment was 32% and gross margin in the ID Integration and Services segment was 64% in fiscal year 2008.

In fiscal year 2008, 53% of the net revenue was derived from Bluehill ID companies operating in Euros, Bluehill ID s reporting currency.

Operating Expenses

Research and Development.

Research and development (R&D) expenses consist primarily of employee compensation.

	Year Ended December 31, 2008 (Euros in thousands)	Year Ended December 31, 2007 unaudited
R&D Expenses	179	0
Percentage of revenue	3%	

Research and development expenses in fiscal year 2008 were 0.2 million, or 3% of revenue. There were no research and development expenses in fiscal year 2007.

Projects are in place to develop new products that address Bluehill ID s customers changing requirements and Bluehill ID expects to continue to make significant investments to enhance its product offerings using the development teams at subsidiary companies and other resources both inside and external to Bluehill ID.

Selling, Marketing and General and Administrative

Selling, marketing and general and administrative (SG&A) expenses consist primarily of fees paid to BH Capital Management, AG, the initial management company of Bluehill ID, as well as advisory, banking and other legal costs for prospectus approval, stock listing and for employee compensation for the sales, marketing and general and administrative functions, expenses related to sales support, technical support, training and market development, as well as general facilities expenditures and professional fees arising from legal, auditing and other consulting services.

	Year Ended December 31, 2008 (Euros in thousands)	Year Ended December 31, 2007 unaudited
Expenses	3890	712
Percentage of revenue	66%	n/a

137

Table of Contents

Total selling, marketing and general and administration expenses in fiscal year ended December 31, 2008 were 3.9 million, or 66% of revenue. While contributions from operations were only for part of the year, Bluehill ID corporate expenses were for the full year.

Total selling, marketing and general and administration expenses in fiscal year ended December 31, 2007 were 0.7 million, representing the costs of the Bluehill ID corporate team including fees paid to BH Capital Management that had been established to start the acquisition process and manage Bluehill ID.

Depreciation and Amortization

Depreciation and amortization of intangible assets was 0.2 million in fiscal year 2008 and zero in fiscal year 2007.

Other (Loss) Income

Fiscal year 2008 included other income of 0.7 million arising, principally, from the excess of acquirer s interest in fair value of net assets, over cost, taken to the income statement. There was no other income or loss in fiscal year 2007.

Fiscal year 2008 included net finance income of 1.4 million arising from net interest income (0.1 million), net foreign exchange gains (0.5) and net gains of financial assets at fair value through profit or loss (0.8 million). Fiscal year 2007 included net finance income of 0.1 million arising from net interest income.

Income Taxes

Net tax income for Bluehill ID in 2008 was 4,000. There was no income tax expense in 2007.

Liquidity and Capital Resources

As of June 30, 2009, Bluehill ID had 3.2 million of cash and short term deposits. As of December 31, 2008, Bluehill ID had 7.7 million of cash and short-term deposits. The changes resulted from cash used in acquisitions (0.7 million), cash used in increasing the stakes in minority investments (1.6 million) and cash used in support of operations (3.2 million) together with net cash receipts from capital increase (1.0 million). The cash used to support operations increased as a result of growth in Bluehill ID s corporate operations necessary to support a significantly larger group of companies as well as to support the expected future acquisitions.

In order to fund continued acquisitions and support its growth plans, Bluehill ID expects to continue to require additional capital. Historical capital increases include both cash increases and contributions in kind. Bluehill ID intends to secure the necessary capital to fund its strategy through sales of its debt or equity securities, bank loans or third-party financing. Any financing is subject to favorable terms and market conditions and there can be no assurance that Bluehill ID will be able to secure the necessary funds for a proposed acquisition or other capital requirements. Bluehill ID actively uses its own shares as financing currency for the acquisitions and in fact will use shares as currency whenever possible to limit cash utilization. This encourages employee ownership and shares allow them to benefit from the growth of the company as part of their overall compensation.

Off-Balance Sheet Arrangements

Bluehill ID has not entered into off-balance sheet arrangements or issued guarantees to third parties.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in, and Bluehill ID has had no disagreements with, its accountants with respect to its accounting and financial disclosure.

Table of Contents

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currencies

Bluehill ID s consolidated financial statements are presented in Euros, which is the company s functional currency. That is the currency of the primary economic environment in which Bluehill ID operates. Each entity in the Bluehill ID group of companies determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into Euros at the rate of exchange prevailing at the balance sheet date and their income statements in general are translated at exchange rates prevailing at the date of the transactions. If the exchange rates for the translation of the income statement are not directly attributable to the transaction, Bluehill ID has used the average of the exchange rates for the period ending December 31, 2008. The exchange differences arising on the translation are taken directly to a separate component of equity.

Fiscal year 2008 IFRS financial statements disclosure notes included a sensitivity analysis of exposure to exchange rate (Note 23 Financial risk management objectives and policies).

Fixed Income Investments

Bluehill ID does not use derivative financial instruments in its investment portfolio.

Material Differences Between IFRS and U.S. GAAP for Fiscal Year 2008

There were no differences in the 2008 fiscal year in revenues under IFRS and U.S. GAAP resulting from differences in treatment of revenue recognition.

The most significant reconciling items between the IFRS and U.S. GAAP pro forma financial statements were principally related to the difference in treatment of leased vehicles, pensions, intangibles and deferred taxes.

The net effect of these differences on Total Assets in the pro forma U.S. GAAP balance sheet was a reduction of 0.1 million compared to the IFRS statements.

The net effect of these differences on the pro forma income statement was an increase of net profit of 15,000.

Material Differences Between IFRS and U.S. GAAP for the Six Months Ended June 30, 2009

There were no differences in the six months ended June 30, 2009 in revenues under IFRS and U.S. GAAP resulting from differences in treatment of revenue recognition.

The most significant reconciling items between the IFRS and U.S. GAAP pro forma financial statements were principally related to the difference in treatment of leased vehicles, reversal of impairment of fixed asset, pensions, intangibles and deferred taxes.

The net effect of these differences on Total Assets in the pro forma U.S. GAAP balance sheet was a reduction of 0.4 million compared to the IFRS statements.

The net effect of these differences on the pro forma income statement was an increase of net profit of 0.3 million.

Table of Contents

DESCRIPTION OF SCM MICROSYSTEMS CAPITAL STOCK

Authorized Capital

As of November 9, 2009, the authorized capital stock of SCM consists of 60,000,000 shares of SCM common stock, $0.001 par value, and 10,000,000 shares of preferred stock, $0.001 par value.

Common Stock

As of November 9, 2009, there were 25,134,985 shares of SCM common stock outstanding. Holders of SCM common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding SCM preferred stock, the holders of SCM common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by SCM s board of directors out of funds legally available therefor. In the event of a liquidation, dissolution or winding up of SCM, the holders of SCM common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior liquidation rights of SCM preferred stock, if any, then outstanding. The SCM common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the SCM common stock. All outstanding shares of SCM common stock are fully paid and non-assessable, and the shares of SCM common stock to be outstanding upon consummation of the offering will be fully paid and non-assessable.

Preferred Stock

As of November 9, 2009, 10,000,000 shares of undesignated SCM preferred stock were authorized, and no shares were outstanding. SCM s board of directors has the authority to issue the shares of SCM preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions granted to or imposed upon any unissued shares of preferred stock and to fix the number of shares constituting any series and the designations of such series, without any further vote or action by the stockholders. Although it presently has no intention to do so, SCM s board of directors, without stockholder approval, can issue preferred stock with voting and conversion rights which could adversely affect the voting power of the holders of SCM common stock. The issuance of SCM preferred stock may have the effect of delaying, deterring or preventing a change in control of SCM.

Warrants

As of November 9, 2009, warrants to purchase approximately 4,900,807 shares of SCM common stock were outstanding.

Options

As of November 9, 2009, an aggregate of approximately 4.8 million shares of SCM common stock were reserved for future issuance under all of SCM s stock option plans, of which 2.3 million shares were subject to outstanding options.

Rights Agent; Transfer Agent; Anti-Takeover Provisions

American Stock Transfer & Trust Company is the transfer agent and registrar for SCM common stock, and rights agent in connection with the rights agreement, as amended, between SCM and American Stock Transfer & Trust Company. For more information on the rights agreement, see the section entitled Certain Agreements Related to the Offer Amendment to Rights Agreement.

In addition, certain provisions of SCM s certificate of incorporation and bylaws may be deemed to have an anti-takeover effect. For a more complete discussion of these anti-takeover provisions, see the section entitled Comparison of SCM Microsystems Stockholders and Bluehill ID Shareholders Rights and Corporate Governance Matters Anti-Takeover Provisions.

DESCRIPTION OF BLUEHILL ID CAPITAL STOCK

Issued and Outstanding Share Capital

As of November 9, 2009, Bluehill ID s issued and outstanding share capital currently amounts to CHF 32,023,797, consisting of 32,023,797 bearer shares with a nominal value of CHF 1.00 each, including 173,768 bearer shares in Bluehill ID currently held in treasury. For more information about the authorized capital of Bluehill ID see the section entitled, Comparison of SCM Microsystems Stockholders and Bluehill ID Shareholders Rights and Corporate Governance Matters.

Potential Future Issuances

Bluehill ID has authorized and implemented the Bluehill ID Option Plans, which consist of an executive share option plan and an executive bonus plan. Bluehill ID has a conditional share capital under which up to 4,000,000 bearer shares in Bluehill ID may be issued in connection with the Bluehill ID Option Plans. As of November 9, 2009, no options or awards had been issued or granted under the Bluehill ID Option Plans but some options may be granted in the future upon the achievement of certain performance targets pursuant to the terms of existing employment agreements as described in this proxy statement and prospectus. Options and other awards under the Bluehill ID Option Plans can only be granted within 60 days from publication of audited annual report of Bluehill ID, which is expected to be no earlier than May 15, 2010.

Bluehill ID has granted to BH Capital Management AG, a company controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch, an option to purchase up to 3,914,790 bearer shares in Bluehill ID at an exercise price of CHF 1.00 per share until June 30, 2014 pursuant to the Call Option Agreement.

Former shareholders of subsidiaries of Bluehill ID, including Yoonison BV, ACiG AG, TagStar Systems GMBH, and Multicard GMBH, are parties to the Earn Out Agreements, pursuant to which bearer shares in Bluehill ID are issuable to the former shareholders upon the achievement of specified performance targets based on Bluehill ID s sales and profits before taxes for 2009 and 2010. If all such targets are achieved, bearer shares in Bluehill ID with a value of 482,000 would be issuable with respect to 2009 and 422,000 would be issuable with respect to 2010, in each case within 60 days of the release of annual results for Bluehill ID. The actual number of bearer shares in Bluehill ID that are issuable under the Earn Out Agreements will be based on the average trading price of a bearer share in Bluehill ID during the month prior to issuance. Based on an average price per share of a bearer share in Bluehill ID during the month of September 2009 of 0.77818, up to an aggregate of 1,161,685 bearer shares in Bluehill ID could be issuable under the Earn Out Agreements.

For more information regarding the treatment of the Bluehill ID options and other rights to acquire or receive bearer shares in Bluehill ID, see the section entitled The Offer Treatment of Options in this proxy statement and prospectus.

PRINCIPAL STOCKHOLDERS OF SCM MICROSYSTEMS

The following table and the related notes present information as of November 9, 2009 with respect to the beneficial ownership of shares of SCM common stock prior to the Offer and the expected beneficial ownership of shares of SCM common stock following the Offer by (i) each current director and named executive officer of SCM, (ii) each person or group who is known to the management of SCM to be the beneficial owner of more than 5% of all shares of SCM voting securities outstanding as of November 9, 2009 and (iii) all current directors and current executive officers of SCM, as a group. Unless otherwise indicated in the footnotes to the table below and subject to applicable community property laws, SCM believes that each of the stockholders named in the table below has sole voting and investment power with respect to the shares indicated as beneficially owned.

As of November 9, 2009, there were 25,134,985 shares of SCM common stock issued and outstanding. Following the Offer, assuming that SCM acquires 100% of the currently issued and outstanding bearer shares in Bluehill ID and that no options to purchase bearer shares in Bluehill ID are exercised, including under the Call Option Agreement, there are expected to be 40,495,996 shares of SCM common stock issued and outstanding, excluding the 1,201,004 shares of SCM common stock currently held by Bluehill ID. Immediately following the closing of the Offer, these shares are expected to continue to be held by Bluehill ID, but SCM may be deemed to be the beneficial owner of these shares through its interest in Bluehill ID. Therefore, following the Offer, these shares have been excluded from the number of shares of SCM common stock outstanding in the table below. Following the closing of the Offer, the board of directors of Bluehill ID may determine to sell these shares on terms to be determined by the board, including to a transferee that may be an affiliate of SCM or Bluehill ID or one of their respective officers or directors.

Shares of SCM common stock subject to options and warrants that are currently exercisable or are exercisable within 60 days of November 9, 2009 and bearer shares in Bluehill ID subject to options or other rights that are currently exercisable or are exercisable within 60 days of November 9, 2009, are treated as outstanding and beneficially owned by the person holding them for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of beneficial ownership of any other shareholder. The figures in this paragraph and in the table below assume no exercise or termination of any options to purchase SCM common stock or any of the options or other rights to purchase or receive bearer shares in Bluehill ID (including options under the Call Option Agreement), and assumes the conversion of the options or other rights to purchase or receive bearer shares in Bluehill ID into options or other rights to purchase or receive shares of SCM common stock in connection with the Offer.

Table of Contents

Unless specified otherwise below, the mailing address for each individual, officer or director is c/o SCM Microsystems, Inc., 1900-B Carnegie Ave., Santa Ana, California 92705.

Shares of SCM Common Stock Beneficially Owned

	Prior to the Offer		Following the Offer	
Name of Beneficial Owner	**Total Beneficial Ownership**	**Approximate Percentage**	**Total Beneficial Ownership**	**Approximate Percentage**
Lincoln Vale European Partners Master Fund, LP(1)	1,545,692	6.1%	3,162,239	7.8%
Grand Pavilion Commercial Center, 802 West Bay Road, PO Box 30599, Grand Cayman, KY1-1203, Cayman Islands				
Ayman S. Ashour(2)	1,305,004	5.2%	4,591,344	10.8%
Dufourstrasse 121, St. Gallen, Switzerland CH-9001				
Royce & Associates, LLC(3)	1,261,880	5.0%	1,261,880	3.1%
1414 Avenue of the Americas New York, NY 10019				
Bluehill ID AG(4)	1,201,004	4.8%		
Dufourstrasse 121, St. Gallen, Switzerland CH-9001				
Dimensional Fund Advisors, Inc.(5)	1,165,113	4.6%	1,165,113	2.9%
Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746				
Dr. Hans Liebler(6)	1,555,692	6.2%	3,172,239	7.8%
Lawrence W. Midland(7)	1,257,600	5.0%	1,309,600	3.2%
Douglas J. Morgan(8)	276,874	1.1%	276,874	*
Stephan Rohaly(9)	130,628	*	130,628	*
Manfred Mueller(10)	114,482	*	114,482	*
Steven Humphreys(11)	108,194	*	108,194	*
Werner Koepf(12)	65,081	*	65,081	*
Simon Turner(13)	55,700	*	55,700	*
Felix Marx(14)	40,497	*	40,497	*
Martin Wimmer(15)	21,874	*	21,874	*
All directors and executive officers as a group before the Offer (10 persons)(16)	3,626,604	14.2%	5,295,151	13.0%

* Indicates ownership of less than one percent.

(1) Based on information provided by Lincoln Vale to SCM. Following the Offer includes 1,616,547 shares of SCM common stock expected to be received by Lincoln Vale pursuant to the Offer in exchange for 3,108,744 bearer shares in Bluehill ID that it currently holds.

(2) Based on information provided by Ayman S. Ashour to SCM. Ayman S. Ashour is the Chief Executive Officer and Chairman of Bluehill ID. Mr. Ashour, jointly with his wife, directly owns 104,000 shares of SCM common stock. Prior to the Offer includes 1,201,004 shares of SCM common stock currently held by Bluehill ID. Following the Offer, these shares have been excluded from the number of shares of SCM common stock outstanding. Mr. Ashour disclaims beneficial ownership of all shares of SCM common stock not held directly by him or jointly with his wife. Following the Offer also includes (i) 208,000 shares of SCM common stock expected to be received by Mr. Ashour pursuant to the Offer in exchange for 400,000 bearer shares in Bluehill ID that Mr. Ashour currently directly holds or controls and (ii) 4,383,344 shares of SCM common stock representing 4,314,718 bearer shares of Bluehill ID and currently exercisable options to acquire 3,914,790 shares bearer shares of Bluehill ID that are held by BH Capital Management AG, of which

Mr. Ashour is a 49% shareholder and member of the board of directors. Mr. Ashour disclaims beneficial ownership of all of the bearer shares in Bluehill ID and options to acquire bearer shares in Bluehill ID held by BH Capital Management AG, except to the extent of his pecuniary interest therein. Mr. Ashour also holds warrants to purchase 52,000 shares of SCM common stock, which are not exercisable until April 30, 2012 and are therefore not included in the table above.

(3) Based solely on information contained in a Schedule 13-F filed with the Securities and Exchange Commission for the period ended June 30, 2009.

(4) Shares of SCM common stock currently held by Bluehill ID. Following the Offer, these shares have been excluded from the number of shares of SCM common stock outstanding.

(5) Based solely on information contained in a Schedule 13-F filed with the Securities and Exchange Commission for the period ended September 30, 2009.

(6) Prior to the Offer includes options to purchase 10,000 shares of SCM common stock exercisable within 60 days and 1,545,692 shares of SCM common stock held by Lincoln Vale. Following the Offer also includes 1,616,547 shares of SCM common stock expected to be received by Lincoln Vale pursuant to the Offer in exchange for 3,108,744 bearer shares in Bluehill ID that it currently holds. Dr. Liebler is a founder and member of the investment committee of Lincoln Vale. As a result of his affiliation with Lincoln Vale, Dr. Liebler may be deemed to beneficially own the shares of SCM common stock and bearer shares in Bluehill held by Lincoln Vale and may have shared voting and investment power with respect to such shares. Dr. Liebler disclaims beneficial ownership of or any pecuniary interest in such shares.

(7) Includes 1,239,600 shares of SCM common stock held by the Midland Family Trust Est. Jan 29, 2002, 5,200 shares of SCM common stock held by Mr. Midland as custodian for Ashley Marie Midland, 6,000 shares of SCM common stock held as custodian for Alison Midland, 4,000 shares of SCM common stock held as custodian for Taylor Ann Midland and 2,800 shares of SCM common stock held as custodian for Madison Kathleen Midland. Following the Offer also includes 52,000 shares in shares of SCM common stock expected to be received by Mr. Midland pursuant to the Offer in exchange for 100,000 bearer shares in Bluehill ID that Mr. Midland currently holds. Mr. Midland also beneficially owns warrants to purchase 628,800 of SCM common stock, which are not exercisable until April 30, 2012, and options to purchase 40,000 shares of SCM common stock, which are not exercisable within 60 days, and are therefore not included in the table above.

(8) Includes options to purchase 6,666 shares of SCM common stock exercisable within 60 days. Mr. Morgan also holds warrants to purchase 152,950 shares of SCM common stock, which are not exercisable until April 30, 2012 and are therefore not included in the table above. Of the shares beneficially owned by Mr. Morgan, 50,000 are held by Performance Strategies Inc. Profit Sharing Plan & Trust, of which Mr. Morgan is a trustee. In addition, of the warrants to purchase shares of SCM stock, 25,000 are held by Performance Strategies Inc. Profit Sharing Plan & Trust.

(9) Includes options to purchase 109,375 shares of SCM common stock exercisable within 60 days. Mr. Rohaly resigned from SCM effective September 30, 2009.

(10) Includes options to purchase 95,535 shares of SCM common stock exercisable within 60 days.

(11) Includes options to purchase 56,415 shares of SCM common stock exercisable within 60 days.

(12) Includes options to purchase 25,000 shares of SCM common stock exercisable within 60 days.

(13) Includes options to purchase 50,000 shares of SCM common stock exercisable within 60 days.

(14) Consists of options to purchase of 40,479 shares of SCM common stock exercisable within 60 days.

(15) Consists of options to purchase 21,874 shares of SCM common stock exercisable within 60 days. Mr. Wimmer was appointed to serve as interim Chief Financial Officer on September 23, 2009, with such appointment effective September 30, 2009.

(16) Includes an aggregate of 415,344 options exercisable within 60 days. In addition, includes 1,545,692 shares of SCM common stock held by Lincoln Vale and following the Offer includes 1,616,547 shares of SCM common stock expected to be received by Lincoln Vale pursuant to the Offer in exchange for 3,108,744 bearer shares in Bluehill ID that it currently holds. See footnote 6 above.

Table of Contents

PRINCIPAL SHAREHOLDERS OF BLUEHILL ID

The following table and the related notes present information known to Bluehill ID as of November 9, 2009 with respect to the beneficial ownership of the bearer shares in Bluehill ID prior to the Offer and the expected beneficial ownership of shares of SCM common stock following the Offer, by (i) each current director and named executive officer of Bluehill ID, (ii) each person or group who is known to the management of Bluehill ID to be the beneficial owner of more than 5% of all shares of Bluehill ID voting securities outstanding as of November 9, 2009 and (iii) all current directors and current executive officers of Bluehill ID, as a group. Unless otherwise indicated in the footnotes to the table below and subject to applicable community property rules, Bluehill ID believes that each of the shareholders named in the table below has sole voting and investment power with respect to the shares indicated as beneficially owned.

As of November 9, 2009, there were 31,850,029 bearer shares in Bluehill ID issued and outstanding, excluding 173,768 bearer shares in Bluehill ID held in treasury. As of November 9, 2009, there were 25,134,985 shares of SCM common stock issued and outstanding. Following the Offer, assuming that SCM acquires 100% of the currently issued and outstanding bearer shares in Bluehill ID and that no options to purchase bearer shares in Bluehill ID are exercised, including under the Call Option Agreement, there are expected to be 40,495,996 shares of SCM common stock issued and outstanding, excluding the 1,201,004 shares of SCM common stock currently held by Bluehill ID. Immediately following the closing of the Offer, these shares are expected to continue to be held by Bluehill ID, but SCM may be deemed to be the beneficial owner of these shares through its interest in Bluehill ID. Therefore, following the Offer, these shares have been excluded from the number of shares of SCM common stock outstanding in the table below. Following the closing of the Offer, the board of directors of Bluehill ID may determine to sell these shares on terms to be determined by the board, including to a transferee that may be an affiliate of SCM or Bluehill ID or one of their respective officers or directors.

Bearer shares in Bluehill ID subject to options or other rights that are currently exercisable or are exercisable within 60 days of November 9, 2009 and shares of SCM common stock subject to options and warrants that are currently exercisable or are exercisable within 60 days of November 9, 2009 are treated as outstanding and beneficially owned by the person holding them for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of beneficial ownership of any other shareholder. The figures in this paragraph and in the table assume no exercise or termination of any of the options or other rights to purchase or receive bearer shares in Bluehill ID (including options under the Call Option Agreement) or any options or other rights to purchase SCM common stock, and assumes the conversion of the options and other rights to purchase or receive bearer shares in Bluehill ID into options or other rights to purchase or receive shares of SCM common stock in connection with the Offer.

Table of Contents

Unless specified otherwise below, the mailing address for each individual, officer or director is c/o Bluehill ID AG, Dufourstrasse 121, St. Gallen, Switzerland, CH-9001.

Shares Beneficially Owned

	Prior to the Offer (Bearer Shares in Bluehill ID)				Following the Offer (SCM Common Stock)	
Name of Beneficial Owner	**Number of Shares Held Directly**	**Number of Shares Held Indirectly**	**Total Beneficial Ownership**	**Approximate Percentage**	**Total Beneficial Ownership**	**Approximate Percentage**
Ayman S. Ashour(1)	400,000	8,229,508	8,629,508	24.1%	4,591,344	10.8%
Werner Vogt	873,690		873,690	2.7%	454,319	1.1%
Daniel S. Wenzel(2)	13,250	20,561,120	20,574,370	57.5%	10,698,672	25.2%
Dr. Cornelius Boersch(3)	57,308	19,070,751	19,128,059	53.5%	9,946,591	23.4%
Mountain Partners AG(4)	8,771,880	10,298,871	19,070,751	53.3%	9,916,791	23.3%
BH Capital Management AG(5)	8,229,508		8,229,508	23.0%	4,279,344	10.1%
Lincoln Vale European Partners Master Fund L.P.(6) Grand Pavilion Commercial Center, 802 West Bay Road, PO Box 30599, Grand Cayman, KY1-1203, Cayman Islands	3,108,744		3,108,744	9.8%	3,162,239	7.8%
Stanford Venture Capital Holdings, Inc. 6075 Popular Avenue, 3rd Floor, Memphis, TN, 98119	2,226,666		2,226,666	7.0%	1,157,866	2.9%
Mountain Super Angel AG(7)	2,069,363		2,069,363	6.5%	1,076,069	2.7%
www.heymountain.com GmbH HEYMOUNTAIN COSMETICS Harthoefe 14, 72362 Nusplingen, Germany	1,665,000		1,665,000	5.2%	865,800	2.1%
Melvin Denton-Thompson	128,069		128,069	*	66,596	*
Joseph Tassone	84,000		84,000	*	43,680	*
Fabien Nestmann	32,250		32,250	*	16,770	*
John Rogers	25,000		25,000	*	13,000	*
Directors and officers of Bluehill ID as a group (8 persons)(8)	1,613,567	20,561,120	22,174,687	62.0%	11,634,837	27.4%

* Indicates ownership of less than 1%

(1) Mr. Ashour directly holds or controls 400,000 bearer shares in Bluehill ID. Mr. Ashour s indirect holdings include 4,314,718 bearer shares of Bluehill ID and currently exercisable options to acquire 3,914,790 shares bearer shares of Bluehill ID that are held by BH Capital Management AG, of which Mr. Ashour is a 49% shareholder

and member of the board of directors. Mr. Ashour disclaims beneficial ownership of all of the bearer shares in Bluehill ID and options to acquire bearer shares in Bluehill ID held by BH Capital Management AG, except to the extent of his pecuniary interest therein. Following the Offer also includes the 104,000 shares of SCM common stock that Mr. Ashour, jointly with his wife, owns directly. Mr. Ashour also holds warrants to purchase 52,000 shares of SCM common stock, which are not exercisable until April 30, 2012 and are therefore not included in the table above. Excludes 1,201,004 shares of SCM common stock currently held by Bluehill ID, which following the Offer will be excluded from the number of shares of SCM common stock outstanding. Mr. Ashour disclaims beneficial ownership of all shares of SCM common stock not held directly by him or jointly with his wife.

(2) Mr. Wenzel directly holds 13,250 bearer shares in Bluehill ID. Mr. Wenzel s indirect holdings include 20,561,120 bearer shares in Bluehill ID held directly by the following entities of which Mr. Wenzel is a member of the respective board of directors: (i) Mountain Partners AG, 8,771,880 shares; (ii) Mountain Super Angel AG, 2,069,363 shares; (iii) Rosenberg Venture AG, 1,490,369 shares; and (iv) BH Capital Management AG, 4,314,718 shares and currently exercisable options to acquire 3,914,790 shares. Mr. Wenzel disclaims beneficial ownership of the bearer shares in Bluehill ID held or beneficially owned by Mountain Partners AG,

Table of Contents

Mountain Super Angel AG, Rosenberg Venture AG and BH Capital Management AG, except to the extent of his pecuniary interest in each such entity. Mr. Wenzel is one of many directors on the board of directors of each of Mountain Partners AG and Mountain Super Angel AG, and he does not have sole voting or dispositive control over the shares held by such entities.

(3) Dr. Boersch directly holds 57,308 bearer shares in Bluehill ID. Dr. Boersch s indirect holdings include 19,070,751 bearer shares in Bluehill ID held directly or indirectly by Mountain Partners AG, of which Dr. Boersch is a member of the board of directors. Dr. Boersch disclaims beneficial ownership of the bearer shares in Bluehill ID held or beneficially owned by Mountain Partners AG, except to the extent of his pecuniary interest in such entity. Dr. Boersch is one of many directors on the board of directors of Mountain Partners AG and he does not have sole voting or dispositive control over the shares held by it.

(4) Mountain Partners AG directly holds 8,771,880 bearer shares in Bluehill ID. Includes (i) 4,314,718 bearer shares of Bluehill ID and currently exercisable options to acquire 3,914,790 shares bearer shares of Bluehill ID that are held by BH Capital Management AG, of which Mountain Partners AG is a 51% shareholder, and (ii) 2,069,363 bearer shares of Bluehill ID held by Mountain Super Angel AG, as Mountain Partners AG owns 100% of Mountain Super Angel AG s fund manager. Mountain Partners AG disclaims beneficial ownership of the bearer shares in Bluehill ID held or beneficially owned by Mountain Super Angel AG and BH Capital Management AG, except to the extent of its pecuniary interest in BH Capital Management AG.

(5) Includes options to purchase 3,914,790 bearer shares in Bluehill ID pursuant to the Call Option Agreement that are currently exercisable and may be exercised at any time prior to June 30, 2014, at an exercise price of CHF 1.00 per share. BH Capital Management AG is controlled and owned by Ayman S. Ashour and Mountain Partners AG, which is an affiliate of Daniel S. Wenzel and Dr. Cornelius Boersch.

(6) Based on information provided by Lincoln Vale to Bluehill ID. Following the Offer includes 1,545,692 shares of SCM common stock currently held by Lincoln Vale.

(7) Mountain Super Angel AG is a fund managed by Mountain Capital Management AG, of which Mountain Partners AG owns 100%.

(8) Includes 20,561,120 bearer shares in Bluehill ID held or beneficially owned by the following entities: (i) Mountain Partners AG, 8,771,880 shares; (ii) Mountain Super Angel AG, 2,069,363 shares; (iii) Rosenberg Venture AG, 1,490,369 shares; and (iv) BH Capital Management AG, 4,314,718 shares and currently exercisable options to acquire 3,914,790 shares. The directors and officers of Bluehill ID disclaim beneficial ownership of the bearer shares in Bluehill ID held or beneficially owned by Mountain Partners AG, Mountain Super Angel AG, Rosenberg Venture AG and BH Capital Management AG, except to the extent of their pecuniary interest in each such entity.

Table of Contents

MANAGEMENT

SCM s Board of Directors

The Current Board of Directors of SCM

SCM s board of directors is divided into three director classes with staggered three-year terms. Currently, SCM s board consists of seven directors, of which two directors serve in Class I, three directors serve in Class II and two directors serve in Class III. The board of directors has authorized up to eight directors. The following individuals currently serve on SCM s board of directors:

Name	Age	Position
Werner Koepf	67	Chairman of the Board
Steven Humphreys	48	Director
Dr. Hans Liebler	40	Director
Felix Marx	42	Chief Executive Officer and Director
Lawrence W. Midland	67	Executive Vice President and Director
Douglas Morgan	56	Director
Simon Turner	57	Director

Werner Koepf has served as a director of SCM since February 2006 and as Chairman of the board of directors since March 2007. It is expected that Mr. Koepf will resign from SCM s board of directors upon the closing of the Offer. However, his current term expires at the 2012 annual meeting of SCM s stockholders. Mr. Koepf currently is an advisor to the venture capital firm Invision AG. From 1993 to 2002, Mr. Koepf held a variety of senior management positions with Compaq Computer Corporation GmbH, including Vice President and General Manager of the General Business Group from 1993 to 1999; Vice President and General Manager of Compaq Europe, Middle East and Africa (EMEA) from 1999 to 2000; and Chief Executive Officer and Chairman for Compaq Computer, EMEA from 2000 to 2001. From 1989 to 1993, Mr. Koepf was Chairman and Chief Executive Officer for European Silicon Structures SA, an ASIC manufacturer. Prior to 1993, Mr. Koepf held various senior management positions at Texas Instruments Inc., including Vice President and General Manager of several divisions of the group. Mr. Koepf received a master s degree in business administration from the University of Munich and a bachelor s degree with honors in electrical engineering from the Technical College in St. Poelten, Austria.

Steven Humphreys has served as a director of SCM since July 1996 and as Chairman of the board of directors from April 2000 to March 2007. His current term expires at the 2011 annual meeting of SCM s stockholders. Since October 2008, Mr. Humphreys has served as Chief Executive Officer and President of Kleer Corporation, a maker of wire audio technology. Since March 2008, Mr. Humphreys has served as a director of ActivIdentity Corporation, a provider of digital identity solutions. Since October 2003, he has served as Chairman of Robotic Innovations International, Inc., an acquirer and developer of technologies for broad-based applications of robotics, service automation and automated companion devices. From October 2001 to October 2003, he served as Chairman of the Board and Chief Executive Officer of ActivCard Corporation, a provider of digital identity management software. From July 1996 to October 2001, Mr. Humphreys was an executive officer of SCM, serving as President and Chairman of the Board from July 1996 until December 1996, at which time he became Chief Executive Officer and served as President and Chief Executive Officer until April 2000. Previously, Mr. Humphreys was President of Caere Corporation, an optical character recognition software and systems company. Prior to Caere, he spent ten years with

General Electric Company in a variety of positions. Currently, Mr. Humphreys also serves as a director of HeadThere, Inc., a communications robotics device company, and Ready Solar, Inc., a provider of standardized residential solar systems. He also is a director of several privately held companies, a limited partner and advisor to several venture capital firms and from October 2001 to December 2003 was a director of ActivCard. Additionally, Mr. Humphreys was elected to the school board of the Portola Valley Public School District in 2007, and has served on the board of Summit Preparatory Public Charter High School since 2003. Mr. Humphreys holds a B.S. degree from Yale University and M.S. and M.B.A. degrees from Stanford University.

Dr. Hans Liebler has served as a director of SCM since June 2008. His current term expires at the 2011 annual meeting of SCM s stockholders. Since July 2006, Dr. Liebler has served as a partner of Lincoln Vale European

Table of Contents

Partners, an investment management company that he co-founded which is focused on strategic long-term investments in European small- and mid-cap companies, and which is currently the largest single stockholder of SCM. Currently, he also serves on the investment committee of Lincoln Vale. From September 2002 to July 2006, Dr. Liebler managed an investment fund he had conceived for Allianz AG, applying a private equity approach to European publicly listed companies. Previous to this, from September 1996 to September 2002, he worked as a management consultant for McKinsey & Company, initially in the company s Madrid and New York offices and subsequently as co-leader of McKinsey s German Corporate Finance practice. From 1993 to 1995, Dr. Liebler was an investment banker for S.G. Warburg in London. Since 1998, Dr. Liebler has also served as an adjunct professor at the European Business School in Germany. He holds a Master s degree in Business Administration from the University of Munich in Germany and a Ph.D in Finance from the University of St. Gallen in Switzerland.

Felix Marx joined SCM as Chief Executive Officer and director in October 2007. His current term as a director of SCM expires at the 2010 annual meeting of SCM s stockholders. Previously, from 2003 to October 2007, Mr. Marx held a variety of management positions with NXP Semiconductors and Philips Semiconductors, both a specialty semiconductor manufacturer for the smart card industry. Most recently, he served as General Manager of NXP s Near Field Communication business and as President of Moversa, a Joint Venture between NXP Semiconductors and Sony Corporation. Prior to this, Mr. Marx served as General Manager of NXP s Contactless & Embedded Security business. From 2002 to 2003, Mr. Marx was a business consultant with Team Training Austria. Prior to this, he worked for several years in the data and voice networking sector, where he held various sales, marketing, product management, business line and general management positions with companies including Global One Telecommunications and Ericsson Telecom AB. He holds a bachelor s degree in engineering from the Technical Academy in Vienna , a postgraduate degree in Business Administration from the University of Commerce in Vienna and a Masters of Advanced Studies in Knowledge Management from Danube University in Austria.

Lawrence W. Midland has served as a director of SCM since May 2009. His current term expires at the 2012 annual meeting of SCM s stockholders. He was appointed to the board of directors and as an Executive Vice President of SCM and President of SCM s Hirsch subsidiary following the completion of the merger of SCM and Hirsch. Previously, Mr. Midland was President of Hirsch, which he co-founded in August 1981, and for which he served as a director. Mr. Midland became President and Chairman of the board of Hirsch in March 1986 and held those positions continuously until the completion of the merger. Mr. Midland previously served as president of several companies which were all sold profitably, including Retirement Inns of America, Pension Properties Trust, a California REIT, and Pension Administrative Services. Previously Mr. Midland also held various sales positions in investment related activities following his employment as a field engineer with Shell Oil Company. He holds a B.S. degree in Physics (With Distinction) from the University of Oklahoma and an M.B.A. degree from Pepperdine University.

Douglas Morgan has served as a director of SCM since May 2009. His current term expires at the 2010 annual meeting of SCM s stockholders. He was appointed to the board of directors following the completion of the merger of Hirsch and SCM, and had previously served on the board of Hirsch since June 2007. Mr. Morgan is currently CEO and chairman of Performance Strategies, Inc., a consulting company he founded in 1995 specializing in business development, corporate communications, and technology and Internet utilization. His early career included technical and management positions with Computer Sciences Corporation, NCR, and Hewlett Packard. In the early 1980s, he founded Unified Technologies, Inc., which proved instrumental in the launch of Hirsch, helping to locate the company s original financing and subsequently designing Hirsch s original core products. Mr. Morgan subsequently served as Hirsch s Vice President of Engineering and Development for five years, helping define the company s product line and business strategy. Mr. Morgan is a magna cum laude graduate of both MIT, with a Bachelors Degree in Computer Science and Electrical Engineering, and Stanford University, with a Masters Degree in Engineering. He was appointed a National Science Foundation Fellow, has served as an expert witness in intellectual property cases, and is the holder of seven U.S. patents.

Simon Turner has served as a director of SCM since July 2000. His current term expires at the 2012 annual meeting of SCM s stockholders. Since his retirement from DSG international plc in December 2008, Mr. Turner has provided consultancy services to large retail companies, including PC manufacturer ACER Group. From January 2006 to December 2008, Mr. Turner served as Group Sourcing Director for consumer electronic retailer DSG international plc. From January 2002 to January 2006, Mr. Turner was Managing Director of the PC World Group of

Table of Contents

DSG, responsible for operations at PC World, PC World Business and Genesis Communications in the UK and PC City in Europe. From February 1999 to January 2002, Mr. Turner was Managing Director of PC World, a large UK reseller of PCs and PC-related equipment. From December 1996 to February 1999, Mr. Turner was Managing Director of Philips Consumer Electronics, UK and Ireland. Prior to that, he also served as Senior Vice President of Philips Media, Commercial Director of Belling and Company and Group Marketing Manager at Philips Consumer Electronics. Mr. Turner is also a non-executive director of Yorkshire Building Society, which is the UK s third largest member-owned savings and loan institution. Mr. Turner holds a B.S. degree from the University of Surrey in the U.K.

To the knowledge of SCM s management, there are no family relationships between any of its current directors and any other of its directors or executive officers.

The Board of Directors of SCM Following the Offer

Following the closing of the Offer, the SCM board of directors is expected to be increased from seven to nine directors, and include three appointees of Bluehill ID Ayman S. Ashour, Dr. Cornelius Boersch and Daniel S. Wenzel who are expected to be appointed to the board as of the closing of the Offer. Werner Koepf, SCM s current Chairman of the Board, is expected to resign upon the closing of the Offer. SCM currently anticipates that the following individuals will serve as its board of directors following closing of the Offer:

Name	**Age**	**Position**
Ayman S. Ashour	49	Executive Chairman of the Board
Dr. Cornelius Boersch	41	Director
Steven Humphreys	48	Director
Dr. Hans Liebler	40	Director
Felix Marx	42	Chief Executive Officer and Director
Lawrence W. Midland	67	Executive Vice President and Director
Douglas Morgan	56	Director
Simon Turner	57	Director
Daniel S. Wenzel	32	Director

Ayman S. Ashour is the founder and CEO of Bluehill ID. He has served as President of the board of directors since Bluehill ID s founding in 2007. Mr. Ashour also is the Principal of Newton International Management, a strategy consulting firm focused on the security and identification technology industry. From 2001 to 2005 Mr. Ashour was consultant and later COO and CEO of ASSA ABLOY Identification Technology business where he was responsible for the worldwide development of one of the largest and most successful RFID companies. Mr. Ashour served as Divisional Managing Director Williams Plc in the Asia Pacific region from 1997 to 2000 where he was responsible for Chubb Security, Kidde & Yale brands and managed the global operations of Guardforce International and the Chubb Physical Security Group. From 1990 to 1997 Mr. Ashour was with Williams PLC, where he served as Marketing Director of Kidde Group, Vice President of Kidde-Fenwal, Inc and as President of Kidde Fire Fighting, Inc. Mr. Ashour holds a bachelor s degree in Electronic and Electrical Engineering from the University of Manchester in the U.K. He is currently an Adjunct Lecturer for the MBA program at the Sawyer Business School at Suffolk University in Boston. Mr. Ashour is currently a member of the board of directors of the following companies: ACiG AG, Advanced Digital Security Solutions Inc., Arygon Technologies AG, Bluehill ID, Inc., and BH Capital Management AG. In addition, Mr. Ashour is currently a partner in the following private companies, each based in Newton, Massachusetts: Newton International Management, LLC., Trade-3, LLC., tSecu LLC as well as Verifier Security, based in Florida.

Dr. Cornelius Boersch is a director of Bluehill ID and has been an entrepreneur since 1991 when he founded Sabeco GmbH. He served as CEO of ACG AG which he founded in 1995 and was responsible for the IPO of the company in 1999 (NEMAX50). During this time, he acquired and founded more than 25 companies worldwide. In 2000 he was elected entrepreneur of the year in Germany. ACG was sold in 2003 to ASSA ABLOY AB. Dr. Boersch is considered to be one of the most acknowledged business angels and fund investors in the German speaking region. Since 2005, Dr. Boersch has combined his entrepreneurial activities in Mountain Partners AG (Switzerland),

Table of Contents

where he is on the board of directors. Dr. Boersch holds a degree in Business Administration from the European Business School and a Ph.D. from the University of Essen in Germany.

Daniel S. Wenzel is a founding partner of Bluehill ID and of Mountain Partners AG. He is responsible for the strategic direction and expansion of Mountain Partners AG. Prior to founding Mountain Partners AG in 2005, Mr. Wenzel was the Chief of Staff of the board of management of ACG AG and responsible for all strategic projects, merger and acquisition transactions and financing from 2001 to 2005. During this time he successfully achieved the spin-off and the sale of the most important division of the technology group. His career has been complemented by prior experience with Dresdner Bank Latin America in 1998, BNP Paribas in 1999 and Bain & Company in 2000. Mr. Wenzel completed his studies at the WHU, Otto Beisheim Graduate School of Business Management, the Helsinki School of Economics, Finland and the Universidad Adolfo Ibañez, Chile, where he obtained his master degree (Diplom-Kaufmann) in business administration. Mr. Wenzel serves on the board of a number of Mountain Partners portfolio companies based in Germany or Switzerland.

To the knowledge of SCM s management, there are no family relationships between Messrs. Ashour or Wenzel, or Dr. Boersch and any of SCM s directors or executive officers.

Independence of SCM s Current Board of Directors

SCM s board of directors has reviewed the independence of each of its current directors and considered whether any director has had a material relationship with the company or its management that could compromise his ability to exercise independent judgment in carrying out his duties and responsibilities. As a result of this review, SCM s board of directors affirmatively determined that Mr. Koepf, Mr. Humphreys, Dr. Hans Liebler, Mr. Douglas Morgan, and Mr. Turner (collectively, the non-employee directors) are independent under the corporate governance standards of the Marketplace Rules of the NASDAQ Stock Market and Rule 10A-3 of the Securities Exchange Act of 1934.

In connection with the determination of independence of Dr. Hans Liebler, SCM s board of directors considered Dr. Liebler s relationship with SCM s largest stockholder, Lincoln Vale European Partners, of which Dr. Liebler is a founder and member of the investment committee. SCM s board of directors determined that such relationship would not compromise Dr. Liebler s ability to exercise independent judgment in carrying out his duties and responsibilities. In agreeing to serve as a member of SCM s board of directors, Dr. Liebler must act independently of Lincoln Vale European Partners in discharging his fiduciary duties to stockholders of the company and also is obligated not to disclose to Lincoln Vale European Partners or use for his own benefit any confidential information that he may obtain during his service on the board. Dr. Liebler disclaims shared voting or dispositive power over any securities held by the fund.

Compensation of SCM Directors

Annual Cash Compensation

During 2008, SCM s non-employee directors were paid in the currency of the country of their residence, using a fixed exchange rate of 0.93 per U.S. dollar for SCM s German-based directors and £0.63 per U.S. dollar for SCM s UK-based director. During 2008, each non-employee member of SCM s board of directors was eligible to receive the following cash compensation:

- an annual retainer of $10,000 for each member of the board of directors, except for the Chairman, who is eligible to receive an annual retainer of $20,000;

additional annual retainer of $5,000 for service on the Audit Committee of the board of directors, except for the Chairman, who is eligible to receive an annual retainer of $10,000;

additional annual retainer of $2,000 for service on the Compensation or Nominating Committees of the board of directors, except for the Chairman of such committees, who are each eligible to receive an annual retainer of $4,000; and

meeting fees of $1,000 for physical attendance at each board of directors meeting.

Table of Contents

Additionally, SCM reimburses its non-employee directors for all reasonable out-of pocket expenses incurred in the performance of their duties as directors, which in practice primarily consist of travel expenses associated with board or committee meetings or with committee assignments.

Change in Cash Compensation for 2009

During 2008, the Compensation Committee conducted a review of compensation paid to SCM board members that included comparisons of cash and equity compensation made to directors at six other security companies, including ActivIdentity, Entrust, L-1 Identity Solutions, Secure Computing (subsequently acquired by McAfee), Tumbleweed Communication (subsequently acquired by Axway Inc.) and Vasco Data Security. Based on this review, in December 2008, the Compensation Committee approved an increase in the cash compensation paid to SCM s non-employee directors, effective beginning in 2009. Annual cash compensation was increased from $10,000 to $20,000 for all directors except for the Chairman of the Board, whose annual cash compensation was increased from $20,000 to $40,000. Additionally, directors will also receive a fee of $500 for attendance at each telephonic board of directors meeting lasting more than 60 minutes, whereas previously no fees had been paid for attendance at telephonic board of directors meetings. Additionally, members of SCM s board of directors who serve on the Strategic Advisory Committee, which was created in June 2009, are eligible to receive cash compensation of $2,000 per year, except for the Chairman, who is eligible to receive annual cash compensation of $4,000. All other components of cash compensation remain unchanged for 2009.

Equity Compensation

During 2008, each non-employee member of SCM s board of directors was eligible to receive option awards under the terms of the SCM 2007 Stock Option Plan. Under this plan, new members of the board of directors receive an initial option grant to purchase 10,000 shares of the SCM common stock. Continuing members of the board of directors who have served for at least six months receive an annual option grant to purchase 5,000 shares of SCM common stock, awarded on the date of SCM s Annual Meeting of Stockholders. Both of these option grants vest 1/12th per month over the one-year period following the date of grant.

During 2008, each of SCM s non-employee directors, with the exception of Dr. Liebler, received an annual grant of 5,000 options for shares of SCM common stock. All such annual grants were made on July 1, 2008, the date of SCM s Annual Meeting, at an exercise price of $2.91 per share, which was the NASDAQ closing price on that day.
Dr. Liebler received an initial option grant to purchase 10,000 shares of SCM common stock upon joining the board of directors. His grant was made on June 2, 2008 at an exercise price of $2.95, which was the NASDAQ closing price on that day.

Director Compensation for Fiscal Year 2008

The following Director Compensation Table sets forth summary information concerning the compensation paid to SCM s non-employee directors in 2008 for services to the company.

Name	**Fees Earned or Paid in Cash**	**Option Awards (1)**	**Total ($)**
Werner Koepf Chairman(2)	$ 31,000	$ 10,344	$ 41,344

Steven Humphreys Former Chairman(3)	$ 22,000	$ 10,344	$ 32,344
Dr. Hagen Hultzsch(4)	$ 24,000	$ 10,344	$ 34,344
Dr. Hans Liebler(5)	$ 10,500	$ 7,564	$ 18,064
Simon Turner(6)	$ 29,000	$ 10,344	$ 39,344

(1) The amounts in this column represent the U.S. dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS 123(R). These amounts may reflect options granted in years prior to 2008. The grant date fair value of these annual stock options awarded to each director in 2008, other than Mr. Liebler, is approximately $6,751. The grant date fair value of the initial stock options awarded to Dr. Liebler is approximately $13,154. The grant date fair value of the options awards is calculated using the Black-Scholes-Merton valuation model using the following assumptions: a dividend rate of zero, an interest rate for the expected life of the option at the date of grant, an expected option life of 4.00 years, and

Table of Contents

volatility based on historical averages at the date of grant. See Note 2 to the Consolidated Financial Statements for the period ended December 31, 2008 for more information about how SCM accounts for stock-based compensation.

(2) Mr. Koepf received a fee of $20,000 for his service as Chairman of the board of directors in 2008. He also received a fee of $2,000 for his service as a member of the Compensation Committee and a fee of $4,000 for his service as Chairman of the Nominating Committee during 2008. Additionally, he received a fee of $1,000 for each physical board meeting attended, amounting to $5,000. Mr. Koepf had 25,000 options outstanding as of December 31, 2008, of which 22,083 were exercisable.

(3) Mr. Humphreys received a fee of $10,000 for his service as a director in 2008. He also received a fee of $5,000 for his service as a member of the Audit Committee and a fee of $2,000 for his service as a member of the Nominating Committee during 2008. Additionally, he received a fee of $1,000 for each physical board meeting attended, amounting to $5,000. Mr. Humphreys had 66,415 options outstanding as of December 31, 2008, of which 63,498 were exercisable.

(4) Dr. Hultzsch received a fee of $10,000 for his service as a director in 2008. He also received $5,000 for his service as a member of the Audit Committee and a fee of $4,000 for his service as Chairman of the Compensation Committee during 2008. Additionally, he received a fee of $1,000 for each physical board meeting attended, amounting to $5,000. Dr. Hultzsch had 40,000 options outstanding as of December 31, 2008, of which 37,083 were exercisable. Dr. Hultzsch resigned from SCM s board of directors in April 2009.

(5) Dr. Liebler joined the board of directors of SCM effective June 1, 2008, and received a prorated fee of $5,833 for his service as a director from June through December 2008. He also received a prorated fee of $834 for his service as a member of the Compensation Committee and $833 for his service as a member of the Nominating Committee from July through December 2008. Additionally, he received a fee of $1,000 for each physical board meeting attended, amounting to $3,000. Dr. Liebler had 10,000 options outstanding as of December 31, 2008, of which 5,000 were exercisable.

(6) Mr. Turner received a fee of $10,000 for his service as a director in 2008. He also received $10,000 for his service as Chairman of the Audit Committee, $2,000 for his service as a member of the Compensation Committee and $2,000 for his service as a member of the Nominating Committee during 2008. Additionally, he received a fee of $1,000 for each physical board meeting attended, amounting to $5,000. Mr. Turner had 50,000 options outstanding as of December 31, 2008, of which 47,083 were exercisable.

The Board of Directors and Management of Bluehill ID Following the Offer

The Board of Directors of Bluehill ID

Following the closing of the Offer, Bluehill ID will use commercially reasonable efforts to have appointed, upon request, two members of SCM s board of directors, including its Chief Executive Officer, Felix Marx, to its board of directors (*Verwaltungsrat*). Following the closing of the Offer, it is expected that Bluehill ID s board of directors will consist of between four and six directors.