

SCM MICROSYSTEMS INC

Form DEF 14A

August 10, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

SCM MICROSYSTEMS, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

(2) Aggregate number of securities to which transaction applies: N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): N/A

(4) Proposed maximum aggregate value of transaction: N/A

(5) Total fee paid: N/A

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: N/A

(2) Form, Schedule or Registration Statement No.: N/A

(3) Filing Party: N/A

(4) Date Filed: N/A

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SCM MICROSYSTEMS, INC.

**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS
October 6, 2006**

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Stockholders of SCM Microsystems, Inc., a Delaware corporation, will be held on October 6, 2006, at 10:00 a.m., local time, at our corporate headquarters, 41740 Christy Street, Fremont, California 94568, for the following purposes:

1. To elect two Class II directors to serve until the expiration of the term of the Class II directors or until their respective successors are duly elected and qualified or until they are removed or resign;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accountants for the fiscal year ending December 31, 2006; and
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. All stockholders of SCM Microsystems are cordially invited to attend the 2006 Annual Meeting of Stockholders in person. Only stockholders of record at the close of business on August 7, 2006 (the Record Date) are entitled to notice of and to vote at the 2006 Annual Meeting of Stockholders. To assure your representation at the Annual Meeting, stockholders of record as of the Record Date are urged to mark, sign, date and return the enclosed proxy as promptly as possible in the envelope enclosed for that purpose. Any stockholder of record as of the Record Date attending the 2006 Annual Meeting of Stockholders in person may vote in person even if he, she or it previously returned a proxy.

Sincerely,

SCM MICROSYSTEMS, INC.

Stephan Rohaly
Secretary

Fremont, California
August 10, 2006

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SCM MICROSYSTEMS 2006 ANNUAL MEETING OF STOCKHOLDERS, PLEASE SIGN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE. IF YOU ATTEND THE ANNUAL MEETING OF STOCKHOLDERS AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON.

THANK YOU FOR ACTING PROMPTLY

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SCM MICROSYSTEMS, INC.

**PROXY STATEMENT
FOR
2006 ANNUAL MEETING OF STOCKHOLDERS
October 6, 2006**

The enclosed proxy is solicited on behalf of SCM Microsystems, Inc. for use at our 2006 Annual Meeting of Stockholders (the Annual Meeting) to be held on October 6, 2006, at 10:00 a.m., local time, at our corporate headquarters, located at 41740 Christy Street, Fremont, California 94568, or any adjournment(s) or postponement(s) thereof, for the purposes set forth herein and in the accompanying notice of 2006 Annual Meeting of Stockholders.

These proxy solicitation materials are being mailed on or about August 10, 2006 to all SCM Microsystems stockholders entitled to notice of and to vote at the Annual Meeting.

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date

Our Board of Directors, which is also referred to in this proxy statement as the Board, has fixed the close of business on August 7, 2006 as the record date (Record Date) for the determination of our stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment(s) or postponement(s) thereof.

Shares Outstanding

As of July 17, 2006, we had issued and outstanding 15,642,223 shares of common stock, par value \$0.001 per share. For information regarding holders of more than 5% of the outstanding common stock, see Securities Ownership of Certain Beneficial Owners and Management.

Voting Rights

Each stockholder of record on the Record Date will be entitled to one vote per share of common stock held on the Record Date on all matters submitted for consideration of, and to be voted upon by, the stockholders at the Annual Meeting. The election of directors shall be determined by a plurality of the votes cast: each stockholder will be entitled to vote for up to two nominees to our Board of Directors, and the two nominees with the greatest number of votes will be elected to the Board of Directors. All other matters shall be determined by a majority of the votes cast, except as otherwise required by law. No stockholder will be entitled to cumulate votes at the Annual Meeting for the election of any members of our Board of Directors.

Voting Procedures

The required quorum for the transaction of business at the Annual Meeting is one-third (1/3) of the shares of our common stock issued and outstanding as of the Record Date. Shares voted FOR, AGAINST or WITHHELD from a matter voted upon by the stockholders at the Annual Meeting will be treated as being present at the Annual Meeting for purposes of establishing a quorum for the transaction of business, and will also be treated as shares represented and voting at the Annual Meeting (the Votes Cast) with respect to any such matter.

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions, we believe that abstentions should be counted for purposes of determining both (i) the presence or absence of the quorum for the transaction of business, and (ii) the total number of Votes Cast with respect to a proposal. Accordingly, abstentions will have the same effect as a vote against a proposal submitted for consideration of the stockholders at the Annual Meeting. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting, but will not be counted for purposes of determining the number of Votes Cast with respect to a proposal. Consequently, votes AGAINST and

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WITHHELD and abstentions will have no effect on the election of the Class II directors and will be counted as votes against the proposal to ratify the appointment of our independent registered public accountants.

Solicitation of Proxies

The cost of soliciting proxies will be borne by us. We have retained Innisfree M&A Incorporated, a U.S. proxy solicitation firm to assist us with the solicitation at their customary rates (which we estimate will be approximately \$15,000), plus reimbursement for their out-of-pocket expenses. In addition, we may reimburse brokerage firms, banks and other persons representing the beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile or personal solicitation by our directors, officers or regular employees without additional compensation.

Additional Copies of the Proxy Statement

If you are a registered shareholder and have received only one copy of the proxy statement and annual report in your household, but wish to receive additional copies, we will deliver multiple copies for some or all accounts upon your request, either by calling SCM Microsystems at +1 510-360-2302, emailing us at ir@scmmicro.com or writing to us at SCM Microsystems, Inc., 41740 Christy Street, Fremont, California 94568, Attention: Investor Relations. Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may call or write us at the above address to request consolidation of these materials into a single mailing. Please note that if you are not a registered shareholder and your shares are held by a broker or bank, you must contact your bank or broker to request multiple copies or consolidation of proxy materials.

Revocability of Proxies

Your proxy is revocable at any time before it is voted at the Annual Meeting either by delivering to us a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. If you have executed and returned a proxy and are present in person at the Annual Meeting and wish to vote at the Annual Meeting, you may elect to do so by notifying the Inspector of Elections and thereby suspend the power of the proxy holders to vote the proxy previously delivered by you. Attendance at the Annual Meeting, however, will not by itself revoke a proxy previously delivered to us.

Stockholder Proposals for 2007 Annual Meeting of Stockholders

We anticipate that our 2007 Annual Meeting of Stockholders will take place in mid-June 2007, more than thirty days from the date of the 2006 Annual Meeting, and that we will mail our proxy materials for the 2007 Annual Meeting of Stockholders in the middle of April 2007. Therefore, Stockholder proposals that are intended to be presented by our stockholders at our 2007 Annual Meeting must be received by us no later than December 20, 2006, which is 120 days prior to our anticipated mailing date of April 19, 2007, in order to be considered for inclusion in the proxy statement and form of proxy relating to our 2007 Annual Meeting.

Table of Contents**PROPOSAL ONE:****ELECTION OF CLASS II DIRECTORS**

Our Board of Directors is divided into three director classes with staggered three-year terms. Currently our Board consists of eight directors, of which two directors serve in Class I, three directors serve in Class II, and three directors serve in Class III. In February 2006, our Board of Directors approved an increase in the size of the Board from seven to eight directors and an increase in the size of Class II of the Board from two to three directors, effective as of February 2, 2006. Mr. Vought, a Class II director, has decided not to stand for reelection at our 2006 Annual Meeting. Following Mr. Vought's resignation, which will be effective as of the date of the 2006 Annual Meeting, the number of directors constituting the Board of Directors of the Company will be eight, including a vacancy in Class II.

Each director elected at the Annual Meeting of Stockholders will serve for a term ending on the date of the third annual meeting after his or her election when his or her successor has been elected and duly qualified or upon the date of his or her earlier resignation or removal. Stockholders may not cumulate votes in the election of directors.

The Nominating Committee of the Board of Directors has recommended, and the Board of Directors has proposed, that Werner Koepf and Simon Turner be elected as Class II directors at the Annual Meeting. Unless otherwise instructed, the proxy holders named in the enclosed proxy will vote the proxies received by them for Messrs. Koepf and Turner, each of whom currently serves as a director of the Company. In the event that either of Messrs. Koepf and Turner is unable or declines to serve as a director at the time of the Annual Meeting, the proxies received by the proxy holders named in the enclosed proxy will be voted for any nominee who is subsequently designated by the Board of Directors to fill the vacancy. We do not expect, however, that either of Messrs. Koepf and Turner will be unable or will decline to serve as a director at the Annual Meeting, as each of Messrs. Koepf and Turner has agreed to serve if elected.

Set forth below is Information about the background and age as of July 17, 2006 of the directors nominated for election at the Annual Meeting and each of the other incumbent directors:

Name	Age	Position	Director Since
CLASS I DIRECTORS			
Steven Humphreys	45	Chairman of the Board	1996
Ng Poh Chuan	44	Director	1995
CLASS II DIRECTORS			
Werner Koepf	64	Director	2006
Simon Turner	54	Director	2000
Andrew Vought	51	Director	1996
CLASS III DIRECTORS			
Dr. Manuel Cubero	43	Director	2002
Dr. Hagen Hultzsich	65	Director	2002
Robert Schneider	57	Chief Executive Officer and Director	1990

Class II Directors Nominated for Election at the 2006 Meeting

Werner Koepf, age 64, has served as a director of SCM since February 2006. Mr. Koepf is a director of telent plc (formerly Marconi Corporation), where he serves on the audit, nominations, remunerations and operations review committees. Mr. Koepf also serves as chairman of the supervisory board of telent GmbH. Mr. Koepf is a director of Gemplus International SA and is chairman of the board of directors of PXP Software AG. Mr. Koepf also is an advisor to venture capital firms Techno Venture Management GmbH and 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

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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.

Simon Turner, age 54, has served as a director of SCM since July 2000. Since January 2006, Mr. Turner has 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 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 holds a B.S. degree from the University of Surrey.

Class III Directors Whose Terms Expire in 2007

Dr. Manuel Cubero, 43, has served as a director of SCM since April 2002. In December 2005, Dr. Cubero was named Managing Director for Kabel Deutschland GmbH, the largest cable network operator in Europe. From November 2003 to November 2005, Dr. Cubero served as Vice President, Digital TV for Kabel Deutschland. From January 2002 to October 2003, he was a consultant for the media, IT and telecom markets with Egon Zehnder International, an international management consultant firm based in Hamburg, Germany. From April 2000 to June 2001, he was Managing Director of Gallo AG, an Internet gaming company that he co-founded, based in Salzburg, Austria. From January 1994 to March 2000, he held various senior management positions with the Kirch Group, the largest television broadcast company in Germany, including Co-chairman of the commercial module requirements committee of the European Digital Video broadcasting project for five years and Managing Director of the technology investment division of the company. Dr. Cubero holds M.S. and Ph.D. degrees in physics from the Technical University in Darmstadt, Germany and an M.B.A. from INSEAD in Fontainebleau, France.

Dr. Hagen Hultsch, 65, has served as a director of SCM since August 2002. Dr. Hultsch currently sits on the boards of more than 20 technology companies and academic institutions in the U.S. and Europe, including Convergys Corporation, RiT Technologies Ltd, TranSwitch Corporation and VoiceObjects Inc. From 1993 until his retirement in 2001, Dr. Hultsch served as a member of the Board of Management for Deutsche Telekom's technical services division. From 1988 to 1993, he was Corporate Executive Director for Volkswagen AG, where he was responsible for organization and information systems. Dr. Hultsch holds M.S. and Ph.D. degrees in nuclear physics from the University of Mainz, Germany.

Robert Schneider, 57, founded SCM in May 1990 as President, Chief Executive Officer, General Manager and Chairman of the Board and has served as a director since that time. He has served as our Chief Executive Officer since April 2000 and also previously held that position from May 1990 to January 1997. Mr. Schneider served as our President and Chairman of the Board from May 1990 until July 1996, and also served as our Chairman of the Board from January 1997 until April 2000. Prior to founding SCM, Mr. Schneider held various positions at Intel Corporation. He holds a B.S. degree in engineering from HTBL Salzburg and a B.A. degree from the Akademie for Business Administration in Ueberlingen.

Class I Directors Whose Terms Expire in 2008

Steven Humphreys, 45, has served as a director of SCM since July 1996 and as Chairman of the Board of Directors since April 2000. Since October 2003, Mr. Humphreys has served as chairman of Robotic Innovations International, Inc. (RIII), 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

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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 in a variety of positions. Mr. Humphreys is also 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. Mr. Humphreys holds a B.S. degree from Yale University and M.S. and M.B.A. degrees from Stanford University.

Ng Poh Chuan, 44, has served as a director of SCM since June 1995. Since June 1997, Mr. Ng has served as Managing Director and Chairman of the Board of Global Team Technology Pte. Ltd., a manufacturer's representative for computer products. From September 1994 through May 1997, Mr. Ng served as Director, Business Development at ICS, a contract manufacturing company and developer of communications products. Mr. Ng is also a director of a privately held distribution company in Singapore. He holds a B.S. degree in engineering from the National University of Singapore.

Class II Director Not Standing for Re-election

Andrew Vought, age 51, has served as a director of SCM since March 1996. Since July 2003, Mr. Vought has served as Chief Executive Officer and Director of BroadLight, a privately held fabless semiconductor company supporting the passive optical network (PON) market, based in Mountain View, California. From September 2002 to February 2003, Mr. Vought was Chief Executive Officer of Pulsent Corporation, a digital video compression company. From May 1996 to September 2002, Mr. Vought held various executive positions, including Chief Financial Officer and Office of the President, Finance, Operations and Legal, at GlobespanVirata Corporation, a publicly-traded communications semiconductor developer for the broadband industry. From January 1995 to May 1996, Mr. Vought was a partner of Cheyenne Capital Corporation. He also serves as a director of Artimi, a privately held company based in California. Mr. Vought holds B.S. and B.A. degrees from the University of Pennsylvania and an M.B.A. degree from Harvard University.

To our knowledge, there are no family relationships among our directors.

Vote Required and Recommendation of the Board of Directors

At the Annual Meeting, the two nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors will be elected to our Board of Directors. Abstentions and votes withheld from or against any director will be counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law in the election of directors. Stockholders may not cumulate votes in the election of directors.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR
THE TWO CLASS II DIRECTOR NOMINEES NAMED ABOVE**

MATTERS RELATING TO THE BOARD OF DIRECTORS

Board Meetings

Our Board of Directors met four times and had five telephonic meetings during fiscal year 2005. During fiscal 2005, none of our current directors attended (i) fewer than 75% of the total number of meetings of the Board of Directors held during the period for which he served as a director or (ii) fewer than 75% of the total number of meetings of the committees of the Board of Directors on which he served held during the period for which he served as a member of

such committee, except for Manuel Cubero, who attended 67% of Board meetings; Simon Turner, who attended 67% of Board meetings and 50% of meetings held by the committees on which he serves; and Andrew Vought, who attended 67% of meetings held by the committees on which he serves.

Following each physical Board of Directors meeting, our independent directors meet without SCM management present to address any issues they determined to be appropriate.

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The Board of Directors has determined that each of the current directors, including each of the directors standing for re-election, is independent within the meaning of the NASDAQ Stock Market, Inc. director independence standards, with the exception of Robert Schneider, who is the Chief Executive Officer of the Company, and Andrew Vought. Mr. Vought received compensation of \$98,000 in July, 2003 in connection with his services related to the sale and divestiture of our Digital Media and Video business, and thus is not considered independent under the NASDAQ rules.

Board Committees

The Board of Directors currently has Audit, Compensation, Nominating and Strategy Committees. Each committee has a written charter which is available on the Corporate Governance page within the Investor Relations section of our website at www.scmmicro.com, except for the Strategy Committee charter, which is pending Board approval. All members of these committees are appointed by the Board of Directors and are non-employee directors. From time to time the Board of Directors may choose to create additional committees. The following describes each of our current committees, its function, its current membership and the number of meetings held during fiscal 2005.

Name of Director	Audit Committee	Compensation Committee	Nominating Committee	Strategy Committee
Manuel Cubero		Member		
Hagen Hultzsch	Member		Member	Member
Steven Humphreys	Member	Chair	Chair	Chair
Ng Poh Chuan	Member			
Simon Turner	Chair	Member	Member	Member
Andrew Vought	Resigned October 2005	Resigned April 2006		Member

Audit Committee. The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our financial reporting processes, system of internal control, process for monitoring compliance with laws and regulations, audit process and standards of business conduct. The Internal Audit and Sarbanes-Oxley Compliance functions of the Company report directly to the Audit Committee. The Audit Committee is currently comprised of Messrs. Hultzsch, Humphreys, Ng and Turner. Mr. Turner has served as chairman of the Audit Committee since April 27, 2004. Mr. Vought resigned from the Audit Committee in October 2005. The Board of Directors has determined that each current member of the Audit Committee is independent within the meaning of the NASDAQ Stock Market, Inc. director independence standards. The Board has further determined that at least one member of the Audit Committee, Mr. Turner, is a financial expert as defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee held four physical meetings and three telephonic meetings during 2005. The Audit Committee Report is included herein on page 21.

Compensation Committee. The Compensation Committee reviews and makes recommendations to the Board of Directors regarding our compensation policies and the compensation to be provided to the Chief Executive Officer, his direct reports, and our directors. The Compensation Committee is currently comprised of Messrs. Cubero, Humphreys and Turner. Mr. Vought was chairman of the Compensation Committee during fiscal 2005, but resigned from the Committee on April 12, 2006. Mr. Humphreys was subsequently appointed chairman of the Compensation Committee in Mr. Vought's place. The Board of Directors has determined that each current member of the

Compensation Committee is independent within the meaning of the NASDAQ Stock Market, Inc. director independence standards. The Compensation Committee held four meetings during 2005. The Compensation Committee Report is included herein on page 17.

Nominating Committee. The Nominating Committee assists in identifying individuals qualified to become members of the Board of Directors. The Nominating Committee is currently comprised of Messrs. Hultsch, Humphreys and Turner and Mr. Humphreys currently serves as the committee's chairman. The Board of Directors has determined that each of the members of the Nominating Committee is independent within the meaning of the

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NASDAQ Stock Market, Inc. director independence standards. The Nominating Committee held one meeting during 2005.

Strategy Committee. In February 2006, the Board appointed a Strategy Committee to consider possible strategic alternatives and opportunities. The Strategy Committee is currently comprised of Messrs. Hultzsch, Humphreys, Turner and, until his resignation at our 2006 Annual Meeting, Vought. Mr. Humphreys serves as the committee's chairman. The Board of Directors has determined that each current member of the Strategy Committee is independent within the meaning of the NASDAQ Stock Market, Inc. director independence standards, except for Mr. Vought. See Board Independence above.

Identification and Evaluation of Nominees for Directors

The primary role of the Nominating Committee is to develop and recommend to the Board criteria for identifying and evaluating director candidates and to establish a procedure for consideration of director candidates recommended by our stockholders. The Nominating Committee periodically assesses the appropriate size of the Board of Directors and whether any vacancies are expected due to retirement or otherwise. In the event that vacancies are anticipated, the Nominating Committee seeks to identify and evaluate potential candidates at meetings of the Nominating Committee, which can take place at any point during the year.

As part of its selection process, the Nominating Committee may consider recommendations of director candidates with diverse backgrounds and experience who are expected to enhance the quality of the Board, serve stockholders long-term interests and contribute to our overall corporate goals. Directors should possess the highest personal and professional ethics, integrity and values, informed judgment, and sound business experience and be committed to representing the long-term interests of our stockholders. Candidates must also have an inquisitive and objective perspective, the ability to make independent analytical inquiries, practical wisdom and mature judgment. In evaluating candidates, the Nominating Committee may consider a candidate's work experience related to our business, general professional experience and overall expected contributions to the Board of Directors in relation to other directors already serving on the Board. When evaluating existing directors for nomination for re-election, the Nominating Committee may also consider the directors' past Board and committee meeting attendance and participation. We endeavor to have a Board representing diverse experience at policy-making levels in various areas that are relevant to our global activities.

Our stockholders may propose nominees for future consideration by the Nominating Committee by submitting the name(s) and supporting information to Corporate Secretary, SCM Microsystems, Inc., 41740 Christy Street, Fremont, California 94568.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines for the Board, which include, without limitation, guidelines relating to Board composition, director qualifications and selection process, director independence, Board committees and auditor independence. The Corporate Governance Guidelines are available on the Corporate Governance page within the Investor Relations section of our website at www.scmmicro.com. The Nominating Committee and the Board of Directors review the Corporate Governance Guidelines annually and the Board may amend the Corporate Governance Guidelines at any time.

Code of Conduct and Ethics

The Board of Directors has adopted a Code of Conduct and Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer, Controller and any other principal accounting officer, and for the members

of our Board of Directors. Our Code of Conduct and Ethics is posted on the Corporate Governance page within the Investor Relations section of our website, at www.scmmicro.com. The Board reviews our Code of Conduct and Ethics annually and the Board may amend the Code of Conduct and Ethics at any time.

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Communication with the Board of Directors

Although we do not have a formal policy regarding communications between our stockholders and our Board, stockholders may communicate with the Board of Directors by sending an email to ir@scmmicro.com or by writing to the Board at SCM Microsystems, Inc., 41740 Christy Street, Fremont, California 94568, Attention: Investor Relations. The Investor Relations staff will forward such communication to the Board of Directors or to any individual director or directors to whom the communication is directed unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case Investor Relations staff has the authority to discard the communication or take appropriate legal action regarding the communication.

Director Attendance at Stockholder Meetings

We do not have a policy regarding director attendance at stockholder meetings. No directors attended the 2005 Annual Meeting of Stockholders and no directors are expected to attend the 2006 Annual Meeting of Stockholders.

Director Compensation

Each non-employee member of our Board of Directors currently receives an annual retainer of \$10,000, except for the chairman, who currently receives an annual retainer of \$20,000. In addition, each non-employee director currently receives \$1,000 for each Board meeting attended in person for his services as director, as well as reimbursement of travel expenses associated with such Board meetings or committee meetings. Each non-employee member of our Compensation and Nomination Committees currently receives an annual retainer of \$2,000 for such participation, with the exception of the chairman of each committee, who currently receives an annual retainer of \$4,000. Each member of the Audit Committee currently receives an annual retainer of \$5,000 for participation on the committee, with the exception of the chairman of the committee, who currently receives an annual retainer of \$10,000. Members of the Strategy Committee receive \$500 per quarter. In addition, members of the Strategy Committee who participate in additional committee services receive \$1,500 per day of service plus reimbursement of expenses. During 2005, SCM's directors were paid in the currency of the country of their residence, using the average rate of exchange as of April 2003.

A total of 280,000 shares of common stock are currently reserved for issuance under our 1997 Director Option Plan (the Director Plan). The Director Plan provides that the number of shares of our common stock reserved for issuance under the Director Plan is increased on each anniversary date of adoption of the Director Plan by an amount equal to the total number of shares underlying the options granted in the immediately preceding year or a lesser amount determined by the Board of Directors. Each then serving non-employee director was granted an initial option to purchase 5,000 shares of common stock on the effective date of the Director Plan and each person who became or becomes a non-employee director after that date has been granted and currently will automatically be granted an initial option to purchase 10,000 shares of common stock. In addition, each then serving non-employee director has been granted and will currently automatically be granted an annual option to purchase an additional 5,000 shares of common stock under the Director Plan on the date of each annual meeting of our stockholders, subject to continued service as a non-employee director, unless such director has not been serving as a non-employee director for at least six months. All options granted under the Director Plan have an exercise price equal to the fair market value of the common stock at the date of grant, have a term of ten years and vest monthly over one year from the date of grant. Options granted under the Director Plan are not transferable unless approved by the Board of Directors. The Director Plan will terminate in March 2007. We expect to propose a new director stock plan for adoption at our 2007 Annual Meeting of Stockholders.

The Board of Directors and the Compensation Committee reviews and may from time to time make changes to the compensation paid to the non-employee directors, including with respect to service on any additional committee that

is created.

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EXECUTIVE OFFICERS

Information concerning our current executive officers, including their backgrounds and ages as of July 17, 2006, is set forth below:

Robert Schneider, age 57, founded SCM in May 1990 and has served as a director since that time. He has served as our Chief Executive Officer since April 2000 and also previously held that position from May 1990 to January 1997. Mr. Schneider served as our President and Chairman of the Board from May 1990 until July 1996, and also served as our Chairman of the Board from January 1997 until April 2000. Prior to founding SCM, Mr. Schneider held various positions at Intel Corporation. He holds a B.S. degree in engineering from HTBL Salzburg and a B.A. degree from the Akademie for Business Administration in Ueberlingen.

Dr. Manfred Mueller, age 36, joined SCM Microsystems in August 2000 as Director of Strategic Business Development. From July 2002 to July 2005, he served as Director of Strategic Marketing. He was appointed Vice President of Strategic Business Development in July 2005. In February 2006, he was named Vice President of Marketing, in which position he is responsible for product management, marketing, communications and the Company's IP protection. Prior to SCM, from August 1998 to July 2000, Dr. Mueller was Product Manager and Business Development Manager at BetaResearch GmbH, the digital TV technology development division of the Kirchoff Group. Dr. Mueller holds masters and Ph.D degrees in Chemistry from Regensburg University in Germany and an MBA from the Edinburgh Business School of Heriot Watt University in Edinburgh, Scotland.

Stephan Rohaly, age 41, joined SCM Microsystems in March 2006 as Vice President Finance and Chief Financial Officer. Previously, from February 2003 to February 2006, Mr. Rohaly was Director of Corporate Finance at Viartis, a German pharmaceutical firm. From July 1995 to December 2002, he served as Business Unit and Finance & Administration Director for Nike Germany. Prior to Nike, Mr. Rohaly was Symantec's Finance & Administration Officer for Central and Eastern Europe. He received his MBA degree from Rice University, and holds a Bachelor of Science and Business Administration, Magna Cum Laude in Mathematics and Computer Information Systems Management from Houston Baptist University.

To our knowledge, there are no family relationships between any of our executive officers and any of our directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Beneficial Ownership

The table below sets forth information known to us as of July 17, 2006 with respect to the beneficial ownership of our common stock by:

- each person who is known by us to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors;
- each of the Named Executive Officers (as defined below) and our other current executive officers; and
- all of our directors and executive officers as a group.

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Except as otherwise indicated, and subject to applicable community property laws, to our knowledge, the persons named in this table have sole voting and investment power with respect to all shares held by them. Applicable percentage ownership in the following table is based on 15,642,223 shares of common stock outstanding as of July 17, 2006.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of July 17, 2006 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of each other person.

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Unless specified below, the mailing address for each individual, officer or director is c/o SCM Microsystems, Inc., 41740 Christy Street, Fremont, California 94568.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent
Royce & Associates, LLC(1) 1414 Avenue of the Americas New York, NY 10019	1,246,700	7.8%
Dimensional Fund Advisors, Inc.(2) 1299 Ocean Avenue, 11th Floor Santa Monica, Calif., 90401	1,013,721	6.5%
Robert Schneider(3)	797,219	5.0%
Steven Humphreys(4)	92,915	*
Colas Overkott(5)	77,670	*
Ng Poh Chuan(6)	40,000	*
Andrew Vought(7)	36,000	*
Simon Turner(8)	35,000	*
Manfred Mueller(9)	33,579	*
Ingo Zankel(10)	26,980	*
Manuel Cubero(11)	25,000	*
Hagen Hultzsich(12)	25,000	*
Werner Koepf(13)	5,833	*
Steven L. Moore(14)		*
Stephan Rohaly(15)		*
All directors and executive officers as a group (13 persons)(16)	1,195,196	7.3%

* Less than one percent.

(1) Based solely on information contained in a Schedule 13F filed on March 31, 2006.

(2) Based solely on information contained in a Schedule 13F filed on March 31, 2006.

(3) Includes (i) 13,510 shares held by Robert Schneider's wife, Ursula Schneider and (ii) options to purchase 333,775 shares of common stock exercisable within 60 days of July 17, 2006.

(4) Includes options to purchase 81,415 shares of common stock exercisable within 60 days of July 17, 2006.

(5) Includes options to purchase 71,651 shares of common stock exercisable within 60 days of July 17, 2006. Mr. Overkott left SCM Microsystems at the end of fiscal 2005.

(6) Consists of options to purchase 40,000 shares of common stock exercisable within 60 days of July 17, 2006.

(7) Includes options to purchase 35,000 shares of common stock exercisable within 60 days of July 17, 2006.

(8) Consists of options to purchase 35,000 shares of common stock exercisable within 60 days of July 17, 2006.

- (9) Includes options to purchase 28,832 shares of common stock exercisable within 60 days of July 17, 2006.
- (10) Mr. Zankel left SCM Microsystems at the end of fiscal 2005.
- (11) Consists of options to purchase 25,000 shares of common stock exercisable within 60 days of July 17, 2006.
- (12) Consists of options to purchase 25,000 shares of common stock exercisable within 60 days of July 17, 2006.
- (13) Consists of options to purchase 5,833 shares of common stock exercisable within 60 days of July 17, 2006.
- (14) Mr. Moore left SM Microsystems in June 2006.
- (15) Mr. Rohaly joined SCM Microsystems in March 2006.

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- (16) Includes options to purchase 684,006 shares of common stock exercisable within 60 days of July 17, 2006 that may be deemed to be beneficially owned by our directors and certain executive officers. These shares are shown as being held by our directors and officers for purposes of this table only.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, or 10% stockholders, to file certain reports of ownership with the Securities and Exchange Commission and with the National Association of Securities Dealers. Such officers, directors and 10% stockholders are also required by the Securities and Exchange Commission's rules and regulations to provide us with copies of all forms that they file under Section 16(a) of the Exchange Act.

Based solely on our review of copies of such forms received by us, and on written representations from reporting persons, we believe that, during the period from January 1, 2005 to December 31, 2005, our executive officers, directors and 10% stockholders filed all required reports under Section 16(a) of the Exchange Act on a timely basis.

EXECUTIVE COMPENSATION