SCM MICROSYSTEMS INC
Form S-4
October 22, 2009

Table of Contents

As filed with the Securities and Exchange Commission on October 22, 2009

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SCM MICROSYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**3577**	**77-0444317**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

1900-B Carnegie Ave.
Santa Ana, CA 92705
(949) 250-8888
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Lawrence W. Midland
1900-B Carnegie Ave.
Santa Ana, CA 92705
(949) 250-8888
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Michael L. Reed
Gibson, Dunn & Crutcher LLP
555 Mission Street, Suite 3000
San Francisco, California 94105
Facsimile: (415) 374-8459

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, par value $0.001 per share	18,597,706	N/A	$ 46,851,913	$ 2,616.50

(1) Represents the maximum number of shares of SCM Microsystems, Inc. common stock, par value $0.001 per share (SCM common stock), expected to be issued in the transaction described herein, which is equal to the product obtained by multiplying (i) (a) 32,023,797 bearer shares with a nominal value of CHF 1.00 each, of Bluehill ID AG (bearer shares in Bluehill ID) expected to be outstanding immediately prior to the closing of the offer described in this Registration Statement, (b) less 173,768 bearer shares in Bluehill ID held in the treasury, plus (c) 3,914,790 bearer shares in Bluehill ID subject to stock options that are expected to be exercisable immediately prior to the closing of the offer described in this Registration Statement, by (ii) an exchange ratio of 0.52 shares of SCM common stock for each bearer share in Bluehill ID.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and computed pursuant to Rule 457(c) and 457(f) of the Securities Act of 1933, as amended. The estimated maximum offering price is equal to the product of (a) $1.31, the Xetra average of the high and low prices per bearer share in Bluehill ID as reported on Xetra and the Deutsche Boerse AG website and Wertpapier-Informationssystem of Boersen-Zeitung on October 16, 2009 (converted into U.S. dollars based upon the prevailing exchange rate of 0.6712 Euros per U.S. dollar as of October 16, 2009), and (b) 35,764,819, the maximum number of bearer shares in Bluehill ID expected to be eligible for tender in the offer described in this Registration Statement.

(3) Based on 0.00005580 of the proposed maximum aggregate offering price calculated as described in note 2 above.

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

Table of Contents

THE INFORMATION IN THIS PROXY STATEMENT AND PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THE SECURITIES DISCUSSED HEREIN UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION   DATED OCTOBER 22, 2009

PRELIMINARY 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 [ ], local time, on [ ], 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 [ ], 2009, the last practicable trading day before the date of this proxy statement and prospectus, the closing sale price of SCM common stock was $[ ] 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 [ ], 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 $[ ] 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 [ ], 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 [ ], 2009, and is first being mailed to SCM stockholders on or about [ ], 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 [ ], 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 [ ], 2009 at [ ], 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 [ ], 2009 will be entitled to notice of, and a vote at, the SCM special meeting. At the close of business on [ ], 2009, [ ] 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
[   ], 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 [ ], 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-), 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

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 [ ], 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 September 30, 2009 and October 1, 2009, respectively, 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 September 30, 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.

Table of Contents

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 [ ] 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 [ ], local time, on [ ], 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 [ ], 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 [ ] shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately [ ] 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 sections 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.

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 of Bluehill ID who have tendered bearer shares in Bluehill ID will receive adequate compensation, which may include a cash payment for such fractional share calculated on the basis of the closing price per share of SCM common stock on the Frankfurt Stock Exchange on a particular date, or the average of the closing price per share of SCM common stock on the Frankfurt Stock Exchange across a range of dates, as the parties may determine.

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 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 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, Multicard AG, 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 the 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 Bluehill ID s business operations or SCM s business operations;
- the market price of SCM common stock could decline as a result of the large number of shares that will become eligible for sale after 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 October 20, 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 $3.00 and 2.01, 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 October 20, 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 0.86. 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

4

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.

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 September 30, 2009, the directors and executive officers of SCM, together with their affiliates, beneficially owned in the aggregate approximately 3,613,600 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 September 30, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of October 30, 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 September 30, 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 October 1, 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.

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, and the approval by the German Federal Financial Supervisory Authority (BaFin) of the German prospectus.

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 SCM s Board of Directors The Board of Directors of SCM Following the Offer.

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.

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 [ ], local time, on [ ], 2009. Only holders of record of SCM common stock at the close of business on [ ], 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 [ ] shares of SCM common stock outstanding and entitled to vote at the SCM special meeting, held by approximately [ ] 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 $2.0 million. 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 AG 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 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 expiry 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 end of 2009 or 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 transaction is not consummated, then the financial and other resources that SCM has expended on the transaction may not be recoverable.

Table of Contents

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 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.

Table of Contents

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 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 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

Table of Contents

patents or other intellectual property rights. If is the combined companies are unsuccessful in protecting its 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. GAAS. 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.

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.

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,

Table of Contents

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.

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;

Table of Contents

- 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

Table of Contents

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 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

Table of Contents

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 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 Hirsch 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,

Table of Contents

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 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.

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.

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.

Table of Contents

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

Many of SCM s current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than SCM does. As a result, SCM s competitors may be able to respond more quickly to new or emerging technologies or standards and to changes in customer requirements. SCM s competitors may also be able to devote greater resources to the development, promotion and sale of products and may be able to deliver competitive products at a lower end user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of SCM s prospective customers. Therefore, new competitors, or alliances among competitors, may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share.

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 [ ], 2009, the record date for SCM s special meeting, approximately [ ]% 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

Table of Contents

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.

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 September 30, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of October 1, 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 September 30, 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.

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 Prime Standard of the Frankfurt Stock Exchange and it typically experiences the majority of its trading on the Prime Standard. Because of this, factors that would not otherwise affect a stock traded solely on the NASDAQ Stock Market may cause SCM s stock price to fluctuate. For example, European investors may react differently and more positively or negatively than investors in the 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 40,000,000 shares of SCM common stock. At SCM s 2009 Annual Meeting of its Stockholders, which is being held on October 29, 2009, SCM s stockholders are voting upon a proposal to increase the number of shares of SCM common stock authorized for issuance by 20,000,000 shares, to an aggregate of 60,000,000 shares. As of September 30, 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 1.5 million shares of SCM common stock may be granted. As of June 30, 2009, an aggregate of approximately 2.9 million shares of SCM common stock were reserved for future issuance under all of SCM s stock option plans, of which 2.4 million shares were subject to outstanding options. At SCM s 2009 Annual Meeting of its Stockholders, SCM s stockholders are voting upon a proposal to increase the number of shares of SCM common stock which may be granted under the 2007 Stock Option Plan by an additional 2,000,000 shares, to an aggregate of 3,500,000 shares. 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 September 30, 2009, 2009, warrants to purchase approximately 4,900,807 million 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.

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.

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,			
	(Unaudited)		(In thousands of U.S. dollars, except per share data)				
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 (Unaudited)	December 31, 2008	2007	2006	2005	2004
		(In thousands of U.S. dollars)				
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

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 US 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.

Table of Contents

BLUEHILL ID AG AND PREDECESSOR COMPANIES
SELECTED FINANCIAL DATA

	Bluehill ID AG Six Months Ended June 30, 2009 (Unaudited)	Bluehill ID AG Year Ended December 31, 2008 (Unaudited)	Predecessor companies of Bluehill ID AG Six Months Ended June 30, 2008 (Unaudited)
	(In thousands of U.S. dollars)		
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 (Unaudited)	December 31, 2008 (Unaudited)
	(In thousands of U.S. dollars)	
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

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 June 30, 2009 (Unaudited)	Year Ended 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

	Six Months Ended	Year Ended

		June 30, 2009 (Unaudited)		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.

Table of Contents

(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 of 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 October 20, 2009)	$ 3.00	$ 2.80	2.01	1.99	0.95	0.86
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 October 20, 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 $3.00. 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 October 20, 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.

Table of Contents

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 October 20, 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 of the Frankfurt Stock Exchange was 0.86. 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 October 20, 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
October 20, 2009	2.01	1.99	2.01	0.95	0.85	0.86	1.05	1.03	1.05

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 August 31, 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 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.

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.

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, Mountain Partners AG together, 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;

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
(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;

- 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
(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%*

52

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, is solely intended for the benefit and use of SCM s board of directors in connection with its consideration of the transaction and 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,

Table of Contents

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;

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, 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.

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 its 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 [ ] shares of SCM common stock, entitling them to exercise approximately [ ]% 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 [ ] shares of SCM common stock and warrants to purchase approximately [ ] 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 September 30, 2009, Lincoln Vale beneficially owned and had the right to vote approximately 6.1% of the outstanding shares of SCM common stock. As of October 1, 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;

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 October 1, 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 September 30, 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 of Bluehill ID who have tendered bearer shares in Bluehill ID will receive adequate compensation, which may include a cash payment for such fractional share calculated on the basis of the closing price per share of SCM common stock on the Frankfurt Stock Exchange on a particular date, or the average of the closing price per share of SCM common stock on the Frankfurt Stock Exchange across a range of dates, as the parties may determine.

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 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 NASDAQ 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.

Table of Contents

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.

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

Table of Contents

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.

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;

Table of Contents

- 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;