

**CHARTER FOR THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
OF
SCM MICROSYSTEMS, INC.**

PURPOSE:

The purpose of the Audit Committee of the Board of Directors of SCM Microsystems, Inc. and its subsidiaries (the "Company") shall be: to make such examinations as are necessary to monitor (i) the Company's system of internal controls, (ii) the accounting, reporting and financial practices of the Company, including the integrity of the Company's financial statements, (iii) the Company's compliance with legal and regulatory requirements, and (iv) the independent auditor's qualifications, independence and performance; to provide the Company's Board of Directors with the results of its examinations and recommendations derived therefrom; to prepare the report that the rules and regulations of the Securities and Exchange Commission (the "SEC") require be included in the Company's annual proxy statement; to outline to the Board of Directors improvements made, or to be made, in internal accounting controls; to appoint independent auditors to audit the Company's financial statements; and to provide to the Board of Directors such additional information and materials as it may deem necessary to make the Board of Directors aware of significant financial matters which require the Board of Director's attention.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors from time to time prescribe.

MEMBERSHIP:

The Audit Committee members will be appointed by, and will serve at the discretion of, the Board of Directors and will consist of at least three members of the Board of Directors, one of whom shall be designated by the Board of Directors as the chairperson to the Audit Committee, meeting the following criteria:

1. Each member will be an independent director, as defined in (i) NASDAQ Rule 4200(a)(15) and (ii) Section 10A(m)(3) of the Securities Exchange Act, as amended, and (iii) the rules and regulations of the SEC (the "SEC Rules"); and
2. Each member will be able to read and understand fundamental financial statements, in accordance with the NASDAQ National Market Audit Committee requirements; and
3. No member shall have participated in the preparation of the financial statements of the Company at any time during the past three years; and
4. At least one member will qualify as an audit committee financial expert, under NASDAQ and SEC Rules and regulations. Notwithstanding the foregoing, one director who does not meet the definition of an independent director under paragraph 1 above may serve on the Audit Committee if the required determination and other requirements of NASD Rule 4350(d)(2)(B) are complied with.

RESPONSIBILITIES:

The responsibilities of the Audit Committee shall include:

Reviewing on a continuing basis the adequacy of the Company's system of internal controls;

Reviewing and managing the external audit and the Company's relationship with its independent auditors by:

selecting the independent auditors;

reviewing the independent auditors' fee arrangements, proposed audit scope and approach; and

pre-approving audit and non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible).

In this regard, the Audit Committee shall be directly responsible, in its capacity as a committee of the Board of Directors, for (i) the hiring and firing of the independent auditors, (ii) approving all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors, and (iii) oversight of the work of the independent auditors. The Audit Committee may elect to form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting;

Reviewing the performance of the Company's independent auditors and determining whether it is appropriate to adopt a policy of rotating independent auditors on a regular basis;

Overseeing the independence of the Company's independent auditors by, among other things:

requiring the independent auditors to deliver to the Audit Committee on a periodic basis a formal written statement delineating all relationships between the independent auditors and the Company and any other relationships which may impact independence and presenting this statement to the Board;

actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and recommending that the Board take appropriate action to satisfy itself with regard to the auditors' independence;

reviewing the independent auditors' peer review conducted every three years;

discussing with the Company's independent auditors the financial statements and audit findings, including any significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management and any other matters described in Statement of Accounting Standards ("SAS") No. 61, as may be modified or supplemented; and

reviewing reports submitted to the Audit Committee by the independent auditors in accordance with the applicable SEC requirements;

Conducting a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors;

Reviewing with management and the Company's independent auditors such accounting policies (and changes therein) of the Company, including any financial reporting issues which could have a material impact on the Company's financial statements, as are deemed appropriate for review by the Audit Committee prior to any interim or year-end filings with the SEC or other regulatory body;

Reviewing before release, and recommending to the Board of Directors for inclusion in the Company's annual report on Form 10-K, the audited financial statements and Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations;

Ensuring that the Company's independent auditors review the Company's interim financial statements included in quarterly reports on Form 10-Q, using professional standards and procedures for conducting such reviews;

Reviewing with management and the independent auditors the Company's interim financial statements and the related MD&A included in Quarterly Reports on Form 10-Q, including the results of the independent auditor's reviews of the quarterly financial statements;

Reviewing before release the unaudited quarterly operating results in the Company's quarterly earnings release;

Overseeing compliance with the requirements of the Securities and Exchange Commission for disclosure of auditor's services and audit committee members and activities;

Reviewing before release the disclosure regarding the Company's system of accounting and internal controls required under SEC rules to be contained in the Company's periodic filings and the attestations or reports by the independent auditors relating to such disclosure;

Overseeing the Company's compliance systems with respect to legal and regulatory requirements, and reviewing, approving and monitoring the Company's code of ethics for its senior financial officers;

Reviewing management's monitoring of compliance with the Company's standards of business conduct and with the Foreign Corrupt Practices Act;

Receiving periodic reports from the Company's independent auditors and management of the Company to review the selection, application and disclosure of the Company's significant accounting policies and to assess the impact of other financial reporting developments that may have a bearing on the Company, including an analysis of the effect of alternative GAAP methods on the Company's financial statements and a description of any transactions as to which management obtained SAS No. 50 letters;

Reviewing with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements;

Reviewing with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies;

Reviewing the experience and qualifications of the senior members of the independent auditor team and the quality control procedures of the independent auditor;

Recommending to the Board guidelines for the Company's hiring of employees of the independent auditor who were engaged on the Company's account;

Reviewing, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements;

Reviewing the Company's policies relating to the avoidance of conflicts of interest and reviewing past or proposed transactions between the Company, members of the Board and management as well as policies and procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets. The Audit Committee shall consider the results of any review of these policies and procedures by the Company's independent auditors;

Providing oversight and review of the Company's asset management policies, including an annual review of the Company's investment policies and performance for cash and short-term investments;

Reviewing the Company's compliance with employee benefit plans;

Overseeing and reviewing the Company's policies regarding information technology and management information systems;

If necessary, instituting special investigations and, if appropriate, hiring special counsel or experts to assist;

Securing independent expert advice, including retaining independent counsel, accountants, consultants or others, to assist the Audit Committee in fulfilling its duties and responsibilities;

Reviewing related party transactions for potential conflicts of interest;

Meeting at least quarterly with the chief financial officer, the senior internal auditing executive and the independent auditor in separate executive sessions;

Establishing and maintaining free and open means of communication between and among the Board, the Audit Committee, the Company's independent auditors, the Company's internal auditing department and management, including providing such parties with appropriate opportunities to meet privately with the Audit Committee;

Establishing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

Reviewing its own structure, processes and membership requirements;

Providing a report in the Company's proxy statement in accordance with the requirements of Item 306 of Regulation S-K and Item 7(e)(3) of Schedule 14A; and

Providing for appropriate funding, as determined by the Audit Committee and at the expense of the Company, for payment of compensation to the independent auditors for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee; and

Performing other oversight functions as requested or delegated by the full Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial

statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations.

MEETINGS:

The Audit Committee will meet as often as it determines, but not less frequently than once quarterly. The Audit Committee, in its discretion, will ask members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. The Audit Committee will meet separately with the Chief Executive Officer and separately with the Chief Financial Officer of the Company at such times as are appropriate to review the financial affairs of the Company. The Audit Committee will meet periodically in separate executive session with the independent auditors as well as any internal auditors of the Company, at such times as it deems appropriate, to fulfill the responsibilities of the Audit Committee under this charter. The Audit Committee may also meet with the Company's investment bankers or financial analysts who follow the Company.

MINUTES:

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.