

Himax Technologies, Inc.  
Form 20-F/A  
May 20, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 20-F/A**

**(Amendment No. 4)**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
2011**

**For the fiscal year ended December 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report \_\_\_\_\_**

Commission file number: 000-51847

**HIMAX TECHNOLOGIES, INC.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**CAYMAN ISLANDS**

(Jurisdiction of incorporation or organization)

**NO. 26, ZIH LIAN ROAD**

**SINSHIH DISTRICT, TAINAN CITY 74148**

**TAIWAN, REPUBLIC OF CHINA**

(Address of principal executive offices)

**Jackie Chang**

**Chief Financial Officer**

**Telephone: +886-2-2370-3999**

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**Facsimile: +886-2-2314-0877**

**10F, No. 1, Xiangyang Road  
Taipei 10046**

**Taiwan, Republic of China**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<b>Ordinary Shares, par value \$0.3 per ordinary share</b>	<b>The Nasdaq Global Select Market Inc.*</b>

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\*Not for trading, but only in connection with the listing on the Nasdaq Global Select Market, Inc. of American Depositary Shares representing such Ordinary Shares

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 349,279,556 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## EXPLANATORY NOTE

We are filing this Amendment No. 4 to supplement our Annual Report on Form 20-F for the fiscal year ended December 31, 2011 (the “2011 Annual Report”), which we initially filed with the Securities and Exchange Commission on May 1, 2012, as amended by Amendment No. 1 on Form 20-F/A filed on May 4, 2012, Amendment No. 2 on Form 20-F/A filed on July 11, 2012 and Amendment No. 3 on Form 20-F/A filed on July 24, 2012, solely for the purposes of (i) re-filing our financial statements in Item 18 to include the signature of KPMG, independent registered public accounting firm, in its Report of Independent Registered Public Accounting Firm with respect to our financial statements, (ii) filing or furnishing new certifications by our principal executive officer and principal financial officer as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, and (iii) filing the updated Consent of Independent Registered Public Accounting Firm in connection with the Report of Independent Registered Public Accounting Firm on page F-2 with respect to our financial statements and the Report of Independent Registered Public Accounting Firm in Item 15 with respect to the effectiveness of our internal control over financial reporting.

No other changes are hereby made to our 2011 Annual Report, as amended by Amendment No. 1, Amendment No. 2 and Amendment No. 3. The contents of Item 15 and the Reports of Independent Registered Public Accounting Firm, except for the inclusion of the signature of KPMG as described above, and our financial statements and the notes thereto are not modified. This Amendment No. 4 does not reflect events that have occurred after the initial filing date of May 1, 2012 of our 2011 Annual Report or modify or update the disclosures therein, except to reflect the amendments described above.

## ITEM 15. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that based on the evaluation of these controls and procedures required by Rule 13a-15(b) of the Exchange Act, our disclosure controls and procedures were effective.

### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of internal control effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of our chief executive and chief financial officers, assessed the effectiveness of our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of December 31, 2011 based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, our management believes that our internal control over financial reporting was effective as of December 31, 2011.



KPMG, an independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2011, which is included below:

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Himax Technologies, Inc.:

We have audited Himax Technologies, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Himax Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Himax Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Himax Technologies, Inc and subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated April 26, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 26, 2012

### Changes in Internal Control Over Financial Reporting

In 2011, no change in our internal control over financial reporting has occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 18. FINANCIAL STATEMENTS**

Our consolidated financial statements and the report thereon by the independent auditors listed below are attached hereto as follows:

(a) Report of Independent Registered Public Accounting Firm dated April 26, 2012.

(b) Consolidated Balance Sheets of the Company and subsidiaries as of December 31, 2010 and 2011.

(c) Consolidated Statements of Income of the Company and subsidiaries for the years ended December 31, 2009, 2010 and 2011.

(d) Consolidated Statements of Comprehensive Income of the Company and subsidiaries for the years ended December 31, 2009, 2010 and 2011.

(e) Consolidated Statements of Equity of the Company and subsidiaries for the years ended December 31, 2009, 2010 and 2011.

(f) Consolidated Statements of Cash Flows of the Company and subsidiaries for the years ended December 31, 2009, 2010 and 2011.

(g) Notes to Consolidated Financial Statements of the Company and subsidiaries.

**ITEM 19. EXHIBITS**

Exhibit Number	Description of Document
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect. (Incorporated by reference to Exhibit 1.1 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on June 3, 2010.)
2.1	Registrant’s Specimen American Depositary Receipt (included in Exhibit 2.3).
2.2	Registrant’s Specimen Certificate for Ordinary Shares. (Incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)
2.3	Form of Deposit Agreement among the Registrant, the depository and holders of the American depository receipts. (Incorporated by reference to Exhibit (a) from our Registration Statement on Form F-6 (file no. 333-132383) filed with the Securities and Exchange Commission on March 13, 2006.)
2.4	Form of Amendment No.1 to Deposit Agreement among the Registrant and the depository. (Incorporated by reference to Exhibit (a)(2) from our Post Effective Amendment No. 1 to Form F-6 (file no. 333-132383) filed with the Securities and Exchange Commission on August 6, 2009.)
2.5	Share Exchange Agreement dated June 16, 2005 between Himax Technologies, Inc. and Himax Technologies Limited. (Incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)
2.6	Letter of the ROC Investment Commission, Ministry of Economic Affairs dated August 30, 2005 relating to the approval of Himax Technologies, Inc.’s inbound investment in Taiwan. (Incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)
2.7	Letter of the ROC Investment Commission, Ministry of Economic Affairs dated September 7, 2005 relating to the approval of Himax Technologies Limited’s outbound investment outside of Taiwan. (Incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)
4.1	Himax Technologies, Inc. 2005 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)
4.2	Plant Facility Service Agreement dated April 22, 2010 between Himax Display, Inc. and Chi Mei Innolux Corporation. (Incorporated by reference to Exhibit 4.2 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on June 3, 2010.)
4.3†	

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Agreement and Plan of Merger dated November 8, 2010 among Himax Display, Inc., Spatial Photonics, Inc. and Wen Hsieh. (Incorporated by reference to Exhibit 4.3 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on May 20, 2011.)

- 8.1\* List of Subsidiaries.
- 12.1\*\* Certification of Jordan Wu, President and Chief Executive Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2\*\* Certification of Jackie Chang, Chief Financial Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1\*\* Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1\*\* Consent of KPMG, Independent Registered Public Accounting Firm.
- 101.INS\*\*†† XBRL Instance Document.
- 101.SCH\*\*††XBRL Taxonomy Extension Schema Document.
- 101.CAL\*\*††XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\*\*††XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\*\*††XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*\*††XBRL Taxonomy Extension Presentation Linkbase Document.

\* Previously filed with the annual report on Form 20-F on May 1, 2012

\*\* Filed or furnished herewith.

† Confidential treatment has been requested for portions of this exhibit.

XBRL (eXtensible Business Reporting Language) information contained in Exhibit 101 listed above is furnished to the Securities and Exchange Commission, is deemed not filed or a part of a registration statement or prospectus †† for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No. 4 to its Annual Report on its behalf.

Himax Technologies, Inc.

By: /s/ Jackie Chang

Name: Jackie Chang

Title: Chief Financial Officer

Date: May 20, 2013

HIMAX TECHNOLOGIES, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Himax Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Himax Technologies, Inc. (a Cayman Island Company) and subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Himax Technologies, Inc. and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U. S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Himax Technologies, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 26, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 26, 2012

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****December 31, 2010 and 2011****(in thousands of US dollars)**

	December 31,	
	2010	2011
Assets		
Current assets:		
Cash and cash equivalents	\$96,842	106,164
Investments in marketable securities available-for-sale	8,632	165
Accounts receivable, less allowance for doubtful accounts, sales returns and discounts of \$17,180 and \$15,888 at December 31, 2010 and 2011, respectively	80,212	101,280
Accounts receivable from related parties, less allowance for sales returns and discounts of \$138 and \$83 at December 31, 2010 and 2011, respectively	95,964	79,833
Inventories	117,988	112,985
Deferred income taxes	11,977	16,217
Restricted cash and cash equivalents	58,500	84,200
Prepaid expenses and other current assets	15,809	14,865
Total current assets	485,924	515,709
Investment securities, including securities measured at fair value of \$5,196 and \$5,080 at December 31, 2010 and 2011, respectively	24,622	24,506
Equity method investments	869	439
Property, plant and equipment, net	47,561	57,150
Deferred income taxes	24,729	13,649
Goodwill	26,846	26,846
Intangible assets, net	6,674	4,494
Restricted marketable securities	172	1,266
Other assets	2,223	919
	133,696	129,269
Total assets	\$619,620	644,978

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (Continued)****December 31, 2010 and 2011****(in thousands of US dollars, except share and per share data)**

	December 31,	
	2010	2011
Liabilities and Equity		
Current liabilities:		
Short-term debt	\$57,000	84,200
Accounts payable	115,922	134,353
Income taxes payable	9,125	3,644
Deferred income taxes	96	-
Other accrued expenses and other current liabilities	23,605	23,163
Total current liabilities	205,748	245,360
Income taxes payable	133	-
Accrued pension liabilities	168	319
Deferred income taxes	1,215	836
Other liabilities	5,380	3,405
Total liabilities	212,644	249,920
Equity		
Himax Technologies, Inc. stockholders' equity:		
Ordinary shares, US\$0.3 par value, 1,000,000,000 shares authorized; 353,842,764 shares issued and outstanding at December 31, 2010; 356,699,482 shares issued and 349,279,556 shares outstanding at December 31, 2011	106,153	107,010
Additional paid-in capital	100,291	103,051
Treasury shares, at cost (nil and 7,419,926 ordinary shares at December 31, 2010 and December 31, 2011, respectively)	-	(4,502 )
Accumulated other comprehensive income	1,204	166
Unappropriated retained earnings	198,230	187,712
Total Himax Technologies, Inc. stockholders' equity	405,878	393,437
Noncontrolling interests	1,098	1,621
Total equity	406,976	395,058
Commitments and contingencies		
Total liabilities and equity	\$619,620	644,978

See accompanying notes to consolidated financial statements.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Income****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars, except per share data)**

	Year Ended December 31,		
	2009	2010	2011
Revenues			
Revenues from third parties, net	\$245,075	304,068	374,788
Revenues from related parties, net	447,306	338,624	258,233
	692,381	642,692	633,021
Costs and expenses:			
Cost of revenues	550,556	507,647	507,449
Research and development	71,364	76,426	79,042
General and administrative	16,346	18,770	17,095
(Recovery of ) bad debt expense	218	(8,788 )	(1,541 )
Sales and marketing	10,360	13,279	14,368
Total costs and expenses	648,844	607,334	616,413
Operating income	43,537	35,358	16,608
Non operating income (loss):			
Interest income	766	607	556
Gains (losses) on sale of marketable securities, net	(87 )	296	350
Equity in losses of equity method investees	(89 )	(410 )	(349 )
Foreign currency exchange gains (losses), net	(510 )	(899 )	466
Interest expense	(3 )	(182 )	(455 )
Other income (loss), net	111	524	(368 )
	188	(64 )	200
Earnings before income taxes	43,725	35,294	16,808
Income tax expense	7,915	6,228	7,301
Net income	35,810	29,066	9,507
Net loss attributable to noncontrolling interests	3,840	4,140	1,199
Net income attributable to Himax Technologies, Inc. stockholders	\$39,650	33,206	10,706
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.11	0.09	0.03

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Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.11	0.09	0.03
Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders	\$0.21	0.19	0.06
Diluted earnings per ADS attributable to Himax Technologies, Inc. stockholders	\$0.21	0.19	0.06

See accompanying notes to consolidated financial statements.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars)**

	Year Ended December 31,		
	2009	2010	2011
Net income	\$35,810	29,066	9,507
Other comprehensive income:			
Unrealized gains (losses) on securities, not subject to income tax:			
Unrealized holding gains (losses) on available-for-sale marketable securities arising during the period	(193 )	1,511	(305 )
Reclassification adjustment for realized losses (gains) included in net income	87	(296 )	(350 )
Foreign currency translation adjustments, not subject to income tax	463	210	128
Net unrecognized actuarial loss, net of tax of \$(18), \$(54) and \$(125) in 2009, 2010 and 2011, respectively	(22 )	(203 )	(573 )
Comprehensive income	36,145	30,288	8,407
<b>Comprehensive loss attributable to noncontrolling interests</b>	<b>3,823</b>	<b>4,118</b>	<b>1,261</b>
<b>Comprehensive income attributable to Himax Technologies, Inc. stockholders</b>	<b>\$39,968</b>	<b>34,406</b>	<b>9,668</b>

See accompanying notes to consolidated financial statements.



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Equity****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars and shares, except per share data)**

	Ordinary shares		Additional paid-in capital	Treasury shares		Accumulated other comprehensive income	Unappropriated retained earnings	Total Himax Technologies, Inc.		Total Equity
	Shares	Amount		Shares	Amount			stockholders' equity	noncontrolling interests	
Balance at January 1, 2009	380,239	\$ 114,072	124,446	-	-	(314)	224,967	463,171	6,835	470,006
Shares acquisition	-	-	-	(26,251)	(36,462)	-	-	(36,462)	-	(36,462)
Shares retirement	(26,251)	(7,875)	(28,587)	26,251	36,462	-	-	-	-	-
Restricted stock vested	4,024	1,207	(1,207)	-	-	-	-	-	-	-
Share-based compensation expenses	-	-	8,181	-	-	-	-	8,181	372	8,553
New shares issued by subsidiary	-	-	(207)	-	-	-	-	(207)	1,234	1,027
Sale (purchase) of subsidiary shares to (from) noncontrolling interests	-	-	285	-	-	-	-	285	1	286
Dilution gain of equity method investments	-	-	13	-	-	-	-	13	-	13
Net unrecognized actuarial loss, net of tax of \$(18)	-	-	-	-	-	(41)	-	(41)	19	(22)
Unrealized holding losses on available-for-sale marketable securities	-	-	-	-	-	(105)	-	(105)	(1)	(106)

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Foreign currency translation adjustments	-	-	-	-	-	464	-	464	(1	)	463
Declaration of cash dividends, \$0.150 per share	-	-	-	-	-	-	(55,496)	(55,496)	-		(55,496)
Net income (loss)	-	-	-	-	-	-	39,650	39,650	(3,840)		35,810
Balance at December 31, 2009	358,012	107,404	102,924	-	-	4	209,121	419,453	4,619		424,072

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Equity (Continued)****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars and shares, except per share data)**

	Ordinary shares		Additional paid-in capital	Treasury shares		Accumulated other comprehensive income (loss)	Unappropriated retained earnings	Total Himax Technologies, Inc. stockholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount		Shares	Amount					
Shares acquisition	-	-	-	(7,708)	(10,755)	-	-	(10,755)	-	(10,755)
Shares retirement	(7,708)	(2,312)	(8,443)	7,708	10,755	-	-	-	-	-
Restricted stock vested	3,539	1,061	(1,061)	-	-	-	-	-	-	-
Share-based compensation expenses	-	-	6,219	-	-	-	-	6,219	92	6,311
New shares issued by subsidiary	-	-	-	-	-	-	-	-	353	353
Sale (purchase) of subsidiary shares to (from) noncontrolling interests	-	-	652	-	-	-	-	652	152	804
Net unrecognized actuarial loss, net of tax of \$(54)	-	-	-	-	-	(201)	-	(201)	(2)	(203)
Unrealized holding gains on available-for-sale marketable securities	-	-	-	-	-	1,193	-	1,193	22	1,215
Foreign currency translation adjustments	-	-	-	-	-	208	-	208	2	210
Declaration of cash dividends,	-	-	-	-	-	-	(44,097)	(44,097)	-	(44,097)

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\$0.125 per share										
Net income (loss)	-	-	-	-	-	-	33,206	33,206	(4,140)	29,066
Balance at										
December 31, 2010	353,843	106,153	100,291	-	-	1,204	198,230	405,878	1,098	406,976

See accompanying notes to consolidated financial statements.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Equity (Continued)****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars and shares, except per share data)**

	Ordinary shares		Additional paid-in capital	Treasury shares		Accumulated other comprehensive income (loss)	Unappropriated retained earnings	Total Himax Technologies, Inc. stockholders' equity		Noncontrolling interests	Total Equity
	Shares	Amount		Shares	Amount			equity	interests		
Shares acquisition	-	-	-	(7,534)	(4,627)	-	-	(4,627)	-	-	(4,627)
Shares retirement	(114)	(34)	(91)	114	125	-	-	-	-	-	-
Restricted stock vested	2,971	891	(891)	-	-	-	-	-	-	-	-
Share-based compensation expenses	-	-	4,124	-	-	-	-	4,124	66	-	4,190
New shares issued by subsidiary	-	-	-	-	-	-	-	-	53	-	53
Sale (purchase) of subsidiary shares to (from) noncontrolling interests	-	-	(382)	-	-	-	-	(382)	1,665	-	1,283
Net unrecognized actuarial loss, net of tax of \$(125)	-	-	-	-	-	(546)	-	(546)	(27)	-	(573)
Unrealized holding loss on available-for-sale marketable securities	-	-	-	-	-	(620)	-	(620)	(35)	-	(655)
Foreign currency translation adjustments	-	-	-	-	-	128	-	128	-	-	128
Declaration of cash dividends,	-	-	-	-	-	-	(21,224)	(21,224)	-	-	(21,224)

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\$0.060 per share											
Net income (loss)	-	-	-	-	-	-	10,706	10,706	(1,199)	9,507	
Balance at											
December 31, 2011	356,700	\$107,010	103,051	(7,420)	(4,502)	166	187,712	393,437	1,621	395,058	

See accompanying notes to consolidated financial statements.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars)**

	Year Ended December 31,		
	2009	2010	2011
Cash flows from operating activities:			
Net income	\$35,810	29,066	9,507
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,795	13,626	12,795
Bad debt expense	218	-	-
Share-based compensation expenses	8,553	6,311	4,190
Loss on disposal of property and equipment	43	34	121
Gain on disposal of equity method investment	-	-	(313 )
Loss (gain) on disposal of marketable securities, net	87	(296 )	(350 )
Unrealized loss (gain) on conversion option	-	(320 )	934
Interest income from amortization of discount on investment in corporate bonds	-	(52 )	(170 )
Equity in losses of equity method investees	89	410	349
Deferred income tax expense	1,448	4,481	6,492
Inventories write downs	13,622	10,557	9,138
Changes in operating assets and liabilities:			
Accounts receivable	(13,686)	(14,782)	(21,068)
Accounts receivable from related parties	(33,685)	41,306	16,181
Inventories	14,401	(60,777)	(4,135 )
Prepaid expenses and other current assets	(2,300 )	(1,590 )	951
Accounts payable	34,360	27,843	18,431
Income taxes payable	(880 )	(5,793 )	(5,616 )
Other accrued expenses and other current liabilities	2,452	4,767	(2,092 )
Other liabilities	(697 )	2,840	(1,897 )
Net cash provided by operating activities	73,630	57,631	43,448
Cash flows from investing activities:			
Purchase of property and equipment	(10,592)	(7,172 )	(18,859)
Proceeds from disposal of property and equipment	25	-	7
Purchase of available-for-sale marketable securities	(34,248)	(34,976)	(17,490)
Disposal of available-for-sale marketable securities	39,263	33,443	25,834
Disposal of equity method investment	-	-	371
Purchase of investment securities	-	(7,524 )	-

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Purchase of equity method investments	(663 )	(906 )	-
Refund from (increase in) refundable deposits	(217 )	298	34
Increase in other assets	(7 )	(684 )	-
Pledge of restricted cash, cash equivalents and marketable securities	(1,002 )	(78 )	(94 )
Purchase of intangible assets	(100 )	-	-
Net cash used in investing activities	(7,541 )	(17,599)	(10,197)

See accompanying notes to consolidated financial statements.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)****Years ended December 31, 2009, 2010 and 2011****(in thousands of US dollars)**

	Year Ended December 31,		
	2009	2010	2011
Cash flows from financing activities:			
Distribution of cash dividends	\$(55,496 )	(44,097 )	(21,224 )
Proceeds from disposal of subsidiary shares to noncontrolling interests by Himax Technologies Limited	529	1,011	17
Proceeds from disposal of subsidiary shares to noncontrolling interests by Himax Imaging, Inc.	-	-	3,224
Purchase of subsidiary shares from noncontrolling interests	(243 )	(207 )	(1,958 )
Pledge of restricted cash, cash equivalents and marketable securities (for borrowing of short-term debt)	-	(57,500 )	(26,700 )
Proceeds from issuance of new shares by subsidiaries	1,027	353	53
Payments to repurchase ordinary shares	(36,596 )	(10,755 )	(4,627 )
Proceeds from borrowing of short-term debt	80,000	217,000	277,200
Repayment of short-term debt	(80,000 )	(160,000)	(250,000)
Net cash used in financing activities	(90,779 )	(54,195 )	(24,015 )
<b>Effect of foreign currency exchange rate changes on cash and cash equivalents</b>	414	81	86
Net increase (decrease) in cash and cash equivalents	(24,276 )	(14,082 )	9,322
Cash and cash equivalents at beginning of year	135,200	110,924	96,842
Cash and cash equivalents at end of year	\$110,924	96,842	106,164
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$3	170	490
Income taxes	\$7,652	8,329	6,326

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****December 31, 2009, 2010 and 2011**

## Note 1. Background, Principal Activities and Basis of Presentation

**Background**

Himax Technologies, Inc. is a holding company located in the Cayman Islands. Following is general information about Himax Technologies, Inc.'s subsidiaries:

Subsidiary	Main activities	Jurisdiction of Incorporation	Percentage of Ownership	
			December 31, 2010	December 31, 2011
Himax Technologies Limited	IC design and sales	ROC	100.00 %	100.00 %
Himax Technologies Korea Ltd. (formerly Himax Technologies Anyang Limited)	Sales	South Korea	100.00 %	100.00 %
Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.)	IC design and sales	ROC	100.00 %	100.00 %
Himax Technologies (Samoa), Inc.	Investments	Samoa	100.00 %	100.00 %
Himax Technologies (Suzhou), Co., Ltd.	Sales	PRC	100.00 %	100.00 %
Himax Technologies (Shenzhen), Co., Ltd.	Sales	PRC	100.00 %	100.00 %
Himax Display, Inc.	IC design, manufacturing and sales	ROC	87.96 %	88.02 %
Integrated Microdisplays Limited	IC design and sales	Hong Kong	87.96 %	88.02 %
Himax Display US Corp.	Investments	Delaware, USA	-	88.02 %
Himax Analogic, Inc.	IC design and sales	ROC	75.11 %	75.10 %
Himax Imaging, Inc.	Investments	Cayman Islands	93.37 %	100.00 %
Himax Imaging, Ltd.	IC design and sales	ROC	93.37 %	89.69 %
Himax Imaging Corp.	IC design	California, USA	93.37 %	100.00 %
Argo Limited	Investments	Cayman Islands	100.00 %	100.00 %
Tellus Limited	Investments	Cayman Islands	100.00 %	100.00 %
Himax Media Solutions, Inc.	TFT-LCD television and monitor chipset operations	ROC	78.11 %	78.25 %

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Himax Media Solutions (Hong Kong) Limited	Investments	Hong Kong	78.11 %	78.25 %
Harvest Investment Limited	Investments	ROC	100.00%	100.00%

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## **HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (Continued)**

#### **December 31, 2009, 2010 and 2011**

Since March 2006, Himax Technologies, Inc.'s ordinary shares have been quoted on the NASDAQ Global Market under the symbol "HIMX" in the form of ADSs and two ordinary shares represent one ADS effect from August 10, 2009. See Note 15 (a) as further described.

#### **Principal Activities**

Himax Technologies, Inc. and subsidiaries (collectively, the Company) designs, develops and markets semiconductors that are critical components of flat panel displays. The Company's principal products are display drivers for large-sized thin film transistor liquid crystal displays (TFT-LCD) panels, which are used in desktop monitors, notebook computers and televisions, and display drivers for small- and medium-sized TFT-LCD panels which are used in mobile handsets, and consumer electronics products such as tablet PCs, netbook computers (with a display size of typically less than 10 inches), digital cameras, mobile gaming devices, portable DVD players, digital photo frame and car navigation displays. The Company also offers display drivers for panels using OLED technology and LTPS technology. In addition, the Company is expanding its product offerings to include non-driver products such as timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power management ICs, CMOS image sensors, wafer level optics products, infinitely color technology and 2D to 3D conversion solutions. The Company's customers are TFT-LCD panel manufacturers, mobile device module manufacturers and television makers.

#### **Basis of Presentation**

The accompanying consolidated financial statements of the Company have been prepared in conformity with US generally accepted accounting principles ("US GAAP").

Note 2. Summary of Significant Accounting Policies

(a)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the Himax Technologies, Inc. and all of its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

##### (b) Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment and intangible assets; allowances for doubtful accounts and sales returns; the valuation of derivatives, deferred income tax assets, property, plant and equipment, inventory, share-based compensation and potential impairment of intangible assets, goodwill, marketable securities and other investment securities and liabilities for employee benefit obligations, and income tax uncertainties and other contingencies.

##### (c) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2010 and 2011, the Company had \$77,500 thousand and \$72,000 thousand of cash equivalents, respectively, in US dollar denominated time deposits with original maturities of less than three months. As of December 31, 2011, cash in the amount of \$40,200 thousand and time deposits in the amount of \$44,000 thousand had been pledged as collateral for short term debts which would be released within one year and are therefore excluded from cash and cash equivalents for purposes of the consolidated statements of cash flows.

##### (d) Investment Securities

Investment securities as of December 31, 2010 and 2011 consist of investments in marketable securities, investments in non-marketable equity securities and corporate bond. All of the Company's investments in debt and marketable equity securities are classified as available-for-sale securities and are reported at fair value.

Available-for-sale securities, which mature or are expected to be sold in one year, are classified as current assets. Unrealized holding gains and losses, net of related taxes on available for sale securities are excluded from earnings and reported as a separate component of equity in accumulated other comprehensive income (loss) until realized. Realized gains and losses from the sale of available for sale securities are determined on a specific identification basis.

## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

Conversion option in the Company's investment in corporate convertible bonds are separated from the corporate bonds and accounted for separately as the economic characteristics and risks of the corporate bonds and the conversion options are not closely related, a separate instrument with the same terms as the conversion options would meet the definition of a derivative, and the combined instrument is not measured at fair value. Changes in the fair value of the separated conversion options are recognized immediately in earnings.

Premiums and discounts on the corporate bonds are amortized over the life of the bonds as an adjustment to yield using the effective-interest method and are included in the interest income in the accompanying consolidated statements of income.

The cost of the securities sold is computed based on the moving average cost of each security held at the time of sale.

As of December 31, 2010 and 2011, the Company had \$172 thousand and \$1,266 thousand, respectively, of restricted marketable securities, consisting of negotiable certificate of deposits and New Taiwan dollar (NT\$) and US dollar denominated time deposits with original maturities of more than three months, which had been pledged as collateral for customs duties and guarantees for government grants.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments (included in FASB ASC Topic 320, Investments—Debt and Equity Securities)*, which amends the recognition guidance for other-than-temporary impairments (OTTI) of debt securities and expands the financial statement disclosures for OTTI on debt and equity securities. When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether a company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If a company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If a company does not intend to sell the security and it is not more likely than not that a company will be required to sell the security before recovery of its amortized cost



basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable income taxes.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

The Company adopted the FSP in 2009, which had no impact on the Company's consolidated earnings or consolidated financial position.

Investments in non-marketable equity securities in which the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee are stated at cost. Dividends, if any, are recognized into earnings when received.

Equity investments in entities where the Company has the ability to exercise significant influence over the operating and financial policy decisions of the investee, but does not have a controlling financial interest in the investee, are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in earnings from the date the significant influence commences until the date that significant influence ceases. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee at investment date was amortized over useful life of related assets.

A decline in value of a security below cost that is deemed to be other than temporary a result in an impairment to reduce the carrying amount to fair value. To determine whether any impairment is other-than-temporary, management considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts, when developing estimates of cash flows to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

(e)

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of collectability of accounts receivable on a monthly basis. In establishing the required allowance, management considers the historical collection experience, current receivable aging and the current trend in the credit quality of the Company's customers. Management reviews

its allowance for doubtful accounts quarterly. Account balance is charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

(f) Inventories

Inventories primarily consist of raw materials, work-in-process and finished goods awaiting final assembly and test, and are stated at the lower of cost or market value. Cost is determined using the weighted-average method. For work-in-process and manufactured inventories, cost consists of the cost of raw materials (primarily fabricated wafer and processed tape), direct labor and an appropriate proportion of production overheads. The Company also writes down excess and obsolete inventories to their estimated market value based upon estimations about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional future inventory write-down may be required that could adversely affect the Company's operating results. Once written down, inventories are carried at this lower amount until sold or scrapped. If actual market conditions are more favorable, the Company may have higher operating income when such products are sold. Sales to date of such products have not had a significant impact on the Company's operating income.

(g) Property, Plant and Equipment

Property, plant and equipment consists primarily of land purchased as the construction site of the Company's new headquarters, and machinery and equipment used in the design and development of products, and is stated at cost. Depreciation on building and machinery and equipment commences when the asset is ready for its intended use and is calculated on the straight-line method over the estimated useful lives of related assets which range as follows: building 25 years, building improvements 4 to 16 years, machinery 4 to 6 years, research and development equipment 4 to 6 years, office furniture and equipment 3 to 7 years, others 2 to 10 years. Leasehold improvements are amortized on a straight line basis over the shorter of the lease term or the estimated useful life of the asset. Software is amortized on a straight line basis over the estimated useful lives ranging from 2 to 6 years.

(h) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the business combination of the Company's acquisition of Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.) in 2007 that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least

annually. Impairment testing for goodwill is done at a reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805 (SFAS No. 141), *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

In 2009 and 2010, management determined that the Company in essence only had one reporting unit for purposes of testing goodwill for impairment, which was the enterprise as a whole. Management performs the annual impairment review of goodwill at October 31, and when a triggering event occurs between annual impairment tests. Consequently, the market value based on the quoted market price of the Company's shares was excess of the Company's equity book value on the date of first step of the assessment in 2009 and 2010. Therefore, management concluded that the Company's goodwill was not impaired in 2009 and 2010.

As further described in Note 2(s) below, in 2011 the Company changed its internal reporting such that the Company now has two operating, which are also reportable segments. The Company has determined that three of the components in Segment Driver IC are economically similar and is deemed a single reporting unit. As a result, the Company has five reporting units which are Driver IC, LCOS micro-displays, CMOS image sensors and wafer level optics, Chipsets for TVs and Monitors, and Others..

Management assigned the Company's assets and liabilities to each reporting unit based on either specific identification or by using judgment for the remaining assets and liabilities that are not specific to a reporting unit. Goodwill has been assigned solely to Driver IC reporting unit because on that reporting unit is expected to benefit from the synergies of the business combination. Therefore, only Driver IC reporting unit is tested for goodwill impairment.

For Driver IC reporting unit in 2011, management compared the carrying value of Driver IC reporting unit, inclusive of assigned goodwill, to its respective fair value—step 1 of the two-step impairment test.

The discounted cash flow (DCF) method is used by management in applying the income approach to determine the fair value of each of the Company's reporting units. Significant assumptions inherent in the valuation method for goodwill are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

When performing income approach for each reporting unit, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are regularly and reviewed by management. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in reporting units.

In order to determine the reasonableness of the fair values of the reporting units, management performed a reconciliation of the aggregate fair values of the reporting units to the Company's market capitalization based on the quoted market price of Himax's ordinary shares, adjusted for an appropriate control premium. Management believes the control premium represents the additional amount that a buyer would be willing to pay to obtain a controlling voting interest in the Company as a result of the ability to take advantage of synergies and other benefits. To determine an appropriate control premium, references were made to recent and comparable merger and acquisition transactions in the SIC code 367X- Semiconductors and Related Technology industry.

Based on management's assessments, the estimated fair value of the Driver IC reporting unit exceeded its carrying amount at October 31, 2011. Therefore, management concluded that goodwill was not impaired, and step two of the goodwill impairment test under FASB ASC Topic 350 was not necessary. In addition, no triggering events occurred between annual impairment test dates.

#### (i) Intangible Assets

Acquired intangible assets include patents, developed technology and customer relationship assets at December 31, 2010 and 2011. Intangible assets are amortized on a straight-line basis over the following estimated useful lives: patents 5 to 15 years, technology 5 to 7 years and customer relationship 7 years.

#### (j) Impairment of Long-Lived Assets



The Company's long-lived assets, which consist of property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated. If the carrying amount of an asset exceeds such estimated cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value. Management generally determines fair value based on the estimated discounted future cash flows expected to be generated by the asset.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(k)

#### Revenue Recognition

The Company recognizes revenue from product sales when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection is reasonably assured. The Company uses a binding purchase order as evidence of an arrangement. Management considers delivery to occur upon shipment provided title and risk of loss has passed to the customer based on the shipping terms, which is generally when the product is shipped to the customer from the Company's facilities or the outsourced assembly and testing house. In some cases, title and risk of loss does not pass to the customer when the product is received by them. In these cases, the Company recognizes revenue at the time when title and risk of loss is transferred, assuming all other revenue recognition criteria have been satisfied. These cases include several inventory locations where the Company manages inventories for its customers, some of which inventories are at customer facilities. In such cases, revenue is not recognized when products are received at these locations; rather, revenue is recognized when customers take the inventories from the location for their use.

The Company records a reduction to revenue and accounts receivable by establishing a sales discount and return allowance for estimated sales discounts and product returns at the time revenue is recognized based primarily on historical discount and return rates. However, if sales discount and product returns for a particular fiscal period exceed historical rates, management may determine that additional sales discount and return allowances are required to properly reflect the Company's estimated remaining exposure for sales discounts and product returns.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

(l)

#### Product Warranty

Under the Company's standard terms and conditions of sale, products sold are subject to a limited product quality warranty. The Company may receive warranty claims outside the scope of the standard terms and conditions. The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on

historical experience and any specifically identified quality issues.

(m) Research and Development and Advertising Costs

The Company's research and development and advertising expenditures are charged to expense as incurred. Advertising expenses for the years ended December 31, 2009, 2010 and 2011, were \$21 thousand, \$161 thousand and \$59 thousand, respectively.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

The Company recognizes government grants to fund research and development expenditures as a reduction of research and development expense in the accompanying consolidated statements of income based on the percentage of actual qualifying expenditures incurred to date to the most recent estimate of total expenditures for which they are intended to be compensated.

(n) Employee Retirement Plan

The Company has established an employee noncontributory defined benefit retirement plan (the “Defined Benefit Plan”) covering full-time employees in the ROC which were hired by the Company before January 1, 2005.

The Company records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. Management reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. Management believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The Company adopted the measurement date provisions of ASC 715 (SFAS No. 158), *Compensation-Retirement Benefits*, as of December 31, 2008 which required plan assets and benefit obligations be measured as of the date of the Company’s fiscal year-end statement of financial position which are consistent with the Company’s prior policies and the adoption of the measurement provisions of ASC 715 (SFAS No. 158) did not impact the consolidated financial statements.

The Company has adopted a defined contribution plan covering full-time employees in the ROC (the “Defined Contribution Plan”) beginning July 1, 2005 pursuant to ROC Labor Pension Act. Pension cost for a period is determined based on the contribution called for in that period. Substantially all participants in the Defined Benefit

Plan have been provided the option of continuing to participate in the Defined Benefit Plan, or to participate in the Defined Contribution Plan on a prospective basis from July 1, 2005. Accumulated benefits attributed to participants that elect to change plans are not impacted by their election.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases, and operating loss and tax credit carry-forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as income tax expense in the consolidated statement of income.

(p) Foreign Currency Translation and Foreign Currency Transactions

The reporting currency of the Company is the United States dollar. The functional currency for the Company and its major operating subsidiaries is the United States dollar. Accordingly, the assets and liabilities of subsidiaries whose functional currency is other than the United States dollar are included in the consolidation by translating the assets and liabilities into the reporting currency (the United States dollar) at the exchange rates applicable at the end of the reporting period. Equity accounts are translated at historical rates. The statements of income and cash flows are translated at the average exchange rates during the year. Translation gains or losses are accumulated as a separate component of equity in accumulated other comprehensive income (loss).

(q) Earnings Per Ordinary Share

Basic earnings per ordinary share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per ordinary share is computed using the weighted average number of ordinary and diluted ordinary equivalent shares outstanding during the period. Ordinary equivalent shares are ordinary shares that are contingently issuable upon the vesting of unvested restricted share units (RSUs) granted to employees.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Basic and diluted earnings per ordinary share have been calculated as follows:

	Year Ended December 31,		
	2009	2010	2011
Net income attributable to Himax Technologies, Inc. stockholders (in thousands)	\$39,650	33,206	10,706
Denominator for basic earnings per ordinary share:			
Weighted average number of ordinary shares outstanding (in thousands)	369,652	355,037	353,771
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.11	0.09	0.03

Contingently issuable ordinary shares underlying the unvested RSUs granted to employees are included in the calculation of diluted earnings per ordinary share based on treasury stock method. In 2009, the unvested 612,313 RSUs (represents 1,224,626 ordinary shares) which will vest in 2010 were excluded as their effect would be anti-dilutive. In 2011, the unvested 437,029 RSUs (represents 874,058 ordinary shares) which will vest in 2012 were excluded as their effect would be anti-dilutive.

	Year Ended December 31,		
	2009	2010	2011
Net income attributable to Himax Technologies, Inc. stockholders (in thousands)	\$39,650	33,206	10,706
Denominator for diluted earnings per ordinary share:			
Weighted average number of ordinary shares outstanding (in thousands)	369,652	355,037	353,771
Unvested RSUs (in thousands)	577	653	56
	370,229	355,690	353,827
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.11	0.09	0.03



## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(r) Share-Based Compensation

The cost of employee services received in exchange for share-based compensation is measured based on the grant-date fair value of the share-based instruments issued. The cost of employee services is equal to the grant-date fair value of shares issued to employees and is recognized in earnings over the service period. Compensation cost also considers the number of awards management believes will eventually vest. As a result, compensation cost is reduced by the estimated forfeitures. The estimate is adjusted each period to reflect the current estimate of forfeitures, and finally, the actual number of awards that vest.

(s) Segment Reporting

The Company uses the management approach in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions, allocating resources and assessing performance as the source for determining the Company's reportable segments.

The Company's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who regularly reviews operating results to make decisions about allocating resources and assessing performance for the Company.

Prior to fiscal year 2011, based on the Company's internal organization structure and its internal reporting, management determined that the Company did not have any operating segments as that term is defined in ASC 280 (SFAS No. 131), "*Segments Reporting*".

Since January 2011, management changed the Company's internal organization structure and its internal reporting. Consequently, management has determined that the Company now has two operating segments, Driver IC and

Non-driver products, which are also reportable segments. This basis of segmentation is applied retrospectively to present segment information for 2009 and 2010.

The CODM assesses the performance of the operating segments based on segment sales and segment profit and loss. There are no intersegment sales in the segment revenues reported to the CODM. Segment profit and loss is determined on a basis that is consistent with how the Company reports operating income (loss) in its consolidated statements of operations. Segment profit (loss) excludes income taxes, interest income and expense, foreign currency exchange gains and losses, equity in the earnings (losses) of affiliates, gains and losses on valuations of financial instruments and sales of investment securities, and other income and expenses.

The Company does not report segment asset information to the Company's CODM. Consequently, no asset information by segment is presented.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

## (t) Noncontrolling Interests

Non-controlling interests are classified in the consolidated statements of income as part of consolidated net income and the accumulated amount of non-controlling interests as part of equity in the consolidated balance sheets. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are re-measured with the gain or loss reported in net earnings.

The effects of changes in the Company's ownership interests in its subsidiaries on Himax Technologies, Inc. equity are set forth as follows:

	Year Ended December 31,		
	2009	2010	2011
Net income attributable to Himax Technologies, Inc. stockholders	\$39,650	33,206	10,706
Transfers (to) from the noncontrolling interests:			
Increase (decrease) in Himax Technologies, Inc.'s paid-in capital for sale of shares of Himax Display, Himax Analogic and Himax Media Solutions	285	652	(382 )
Increase in Himax Technologies, Inc.'s paid-in capital for new shares issued by Himax Display, and Himax Media Solutions	35	-	-
Decrease in Himax Technologies, Inc.'s paid-in capital for purchase of new shares issued by Himax Analogic	(242 )	-	-
Net transfers from noncontrolling interests	78	652	(382 )
Change from net income attributable to Himax Technologies, Inc. stockholders and transfers from noncontrolling interests	\$39,728	33,858	10,324

## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(u)

#### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of cash, cash equivalents, accounts receivable, restricted cash and cash equivalents, short-term debt, accounts payable and accrued liabilities approximate their carrying values due to their relatively short maturities. Marketable securities consisting of open-ended bond funds are reported at fair value based on quoted market prices at the reporting date. Marketable securities consisting of time deposits with original maturities more than three months are determined using the discounted present value of expected cash flows. The fair value of the corporate straight bonds was initially determined by subtracting the fair value of the embedded conversion option from the fair value of the combined instrument. The embedded conversion options and the subsequent measurement of the corporate straight bond are reported at fair value based on discounting estimated future cash flows based on the terms and maturity of each instrument and using market interest rates for a similar instrument at the reporting date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and counterparty when appropriate. The fair value of equity method investments and cost method investments have not been estimated as there are no identified events or changes in circumstances that may have significant adverse effects on the carrying value of these investments, and it is not practicable to estimate their fair values.

A fair value hierarchy exists that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- (ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(iii) Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

(v) Recently Issued Accounting Standards

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company will implement the provisions of ASU 2011-11 as of January 1, 2013.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05*. The Company already presents a separate statement of other comprehensive income following the statement of income.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 3. Investments in Marketable Securities Available-for sale

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Following is a summary of marketable securities as of December 31, 2010 and 2011:

	December 31, 2010			<b>Aggregate Market Value</b>
	Aggregate Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	
Time deposit with original maturities more than three months	\$ 150	21	-	171
Open-ended bond fund	7,995	466	-	8,461
Total	\$8,145	487	-	8,632

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

	December 31, 2011			<b>Aggregate Market Value</b>
	<b>Aggregate Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
	(in thousands)			
Time deposit with original maturities more than three months	\$ 150	15	-	165
Open-ended bond fund	-	-	-	-
Total	\$ 150	15	-	165

The Company's portfolio of available for sale marketable securities by contractual maturity or the expected holding period as of December 31, 2010 and 2011 is due in one year or less.

Information on sales of available for sale marketable securities for the years ended December 31, 2009, 2010 and 2011 is summarized below.

Period	<b>Proceeds Gross from sales (in thousands)</b>		<b>Gross realized gains realized losses</b>	
Year ended December 31, 2009	\$ 39,263	179	(266	)
Year ended December 31, 2010	\$ 33,443	326	(30	)
Year ended December 31, 2011	\$ 25,834	420	(70	)

**Note 4. Allowance for Doubtful Accounts, Sales Returns and Discounts**

The activity in the allowance for doubtful accounts, sales returns and discounts for the years ended December 31, 2009, 2010 and 2011 follows:



**Allowance for doubtful accounts**

Period	Balance at beginning of year (in thousands)	Charges (credits) to earnings	Amounts utilized	Balance at end of year
For the year ended December 31, 2009	\$25,297	218	-	25,515
For the year ended December 31, 2010	\$25,515	(8,788)	-	16,727
For the year ended December 31, 2011	\$16,727	(1,541)	-	15,186

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011****Allowance for sales returns and discounts**

Period	<b>Balance at beginning of year</b> (in thousands)		<b>Amounts utilized</b>	<b>Balance at end of year</b>
For the year ended December 31, 2009	\$ 162	2,391	(1,583 )	970
For the year ended December 31, 2010	\$970	4,551	(4,930 )	591
For the year ended December 31, 2011	\$591	3,385	(3,191 )	785

**Note 5. Equity Method Investments**

As of December 31, 2010 and 2011, equity method investments consisted of the following:

	December 31, 2010		2011	
	Amount	<b>Holding %</b>	Amount	<b>Holding %</b>
Hangzhou Crystal Display Technology Co., Ltd.	\$ 125	30.00	-	-
Create Electronic Optical Co., Ltd.	744	21.11	439	21.11
	\$869		439	

Investments accounted for under the equity method consist of Hangzhou Crystal Display Technology Co., Ltd. (Crystal, newly incorporated in May, 2009) that were purchased in June 2009 and Create Electronic Optical Co., Ltd. (C.E.O.) that were purchased in March 2010. Crystal is LCOS project module company and C.E.O. is a camera module supplier.

The Company disposed of Crystal equity to its other shareholders in June 2011 and resulted in \$ 313 thousand gain on disposal of Crystal, which was presented in other income in the accompanying consolidated statement of income.

At investment date, the difference between the carrying amount of the Company's investment in C.E.O. and the underlying equity in the net assets of C.E.O. was \$370 thousand which was resulting from C.E.O.'s identifiable intangible assets and was amortized over 3 years. At the December 31, 2011, the excess of cost of such investment in C.E.O. over the Company's share of the net assets of C.E.O. was \$162 thousand.

As of December 31, 2011, it was not practicable for management to estimate the fair value of the Company's investments in C.E.O. due to the lack of quoted market price and the inability to estimate the fair value without incurring excessive costs. However, management identified no events or changes in circumstance that may significantly affect the Company's ability on recovering the carrying values of the investment.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

## Note 6. Inventories

As of December 31, 2010 and 2011, inventories consisted of the following:

	December 31,	
	2010	2011
	(in thousands)	
Finished goods	\$38,709	30,703
Work in process	66,271	57,737
Raw materials	12,987	24,505
Supplies	21	40
	\$117,988	112,985

Inventory write-downs were \$13,622 thousand, \$10,557 thousand and \$9,138 thousand for the years ended December 31, 2009, 2010 and 2011, respectively, and are included in cost of revenues.

## Note 7. Intangible Assets, Other than Goodwill

	December 31, 2010		
	<b>Gross carrying amount</b>	<b>Weighted average amortization period</b>	<b>Accumulated amortization</b>
	(in thousands)		
Technology	\$6,339	7 years	3,609
Customer relationship	8,100	7 years	4,532
Patents	842	6 years	466

Total	\$15,281	8,607
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December 31, 2011

	<b>Gross carrying amount</b>	<b>Weighted average amortization period (in thousands)</b>	<b>Accumulated amortization</b>
Technology	\$6,339	7 years	4,495
Customer relationship	8,100	7 years	5,689
Patents	842	6 years	603
Total	\$15,281		10,787

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Amortization expense for the years ended December 31, 2009, 2010 and 2011, was \$2,193 thousand, \$2,198 thousand and \$2,180 thousand, respectively. Estimated amortization expense for the next five years is \$2,126 thousand in 2012 and 2013, \$177 thousand in 2014, and \$7 thousand in 2015 and 2016.

## Note 8. Property, Plant and Equipment

	December 31,	
	2010	2011
	(in thousands)	
Land	\$10,154	10,154
Building and improvements	17,199	17,737
Machinery	21,195	27,213
Research and development equipment	16,484	17,393
Software	10,267	10,047
Office furniture and equipment	6,463	7,281
Others	10,029	9,881
	91,791	99,706
Accumulated depreciation and amortization	(45,582)	(53,594)
Prepayment for purchases of land and equipment	1,352	11,038
	\$47,561	57,150

Depreciation and amortization of these assets for the years ended December 31, 2009, 2010 and 2011, was \$11,602 thousand, \$11,428 thousand and \$10,615 thousand, respectively.

## Note 9. Investment securities, including securities measured at fair value

(a) Investments in Non-marketable Equity Securities

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Following is a summary of such investments which are accounted for using the cost method as of December 31, 2010 and 2011:

	December 31,	
	2010	2011
	(in thousands)	
Chi Lin Optoelectronics Co., Ltd.	\$1,057	625
Chi Lin Technology Co. Ltd.	-	432
Jetronics International Corp.	1,600	1,600
C Company	8,962	8,962
Spatial Photonics, Inc.	6,500	6,500
eTurboTouch Technology Inc.	715	715
Oculon Optoelectronics Inc.	309	309
Shinyoptics Corp.	283	283
	\$19,426	19,426

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

On July 25, 2011, Chi Lin Technology Co. Ltd. was split into Chi Lin Optoelectronics Co., Ltd. and Chi Lin Technology Co. Ltd.. Chi Lin Technology Co. Ltd. was renamed as Chi Lin Optoelectronics Co., Ltd..

As of December 31, 2011, it was not practicable for management to estimate the fair values of the Company's investments in equity listed above due to the lack of quoted market price and the inability to estimate the fair value without incurring excessive costs. However, management identified no events or changes in circumstance that may significantly affect the Company's ability on recovering the carrying values of these investments.

(b) Investments in corporate convertible bonds

On August 10, 2010, the Company purchased 1,620,000 units of the corporate convertible bonds issued by Chang Wah Electromaterials Inc. ("CWE"). The bonds have embedded conversion options which the Company can require CWE to settle the bonds during the period from September 11, 2010 to July 31, 2015 by converting each unit of bond into 0.6020 common shares of CWE. The embedded conversion options were separated from the corporate bonds and accounted for separately. The corporate bonds were recorded as available-for sale security and the separated convertible option was recorded as other assets in the accompanying consolidated balance sheets.

Following is a summary of the corporate bonds as of December 31, 2010 and 2011:

	December 31, 2010			
	Aggregate	Gross unrealized	Discount	<b>Aggregate</b>
	Cost	gains	amortization	<b>market</b>
	(in thousands)			<b>Value</b>
Corporate bond-available for sale	\$4,365	779	52	5,196



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	December 31, 2011			
	Aggregate	Gross unrealized	Discount	<b>Aggregate</b>
	Cost	gains	amortization	<b>market</b>
	(in thousands)			Value
Corporate bond-available for sale	\$4,365	596	119	5,080

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Following is a summary of the separated conversion options as of December 31, 2010 and 2011:

	December 31, 2010			
	Aggregate	Gross unrealized	Fair	
	Cost	gains	losses	value
	(in thousands)			
Conversion option	\$684	320	-	1,004

	December 31, 2011			
	Aggregate	Gross unrealized	Fair	
	Cost	gains	losses	value
	(in thousands)			
Conversion option	\$684	-	510	174

**Note 10. Other Accrued Expenses and Other Current Liabilities**

	December 31,	
	2010	2011
	(in thousands)	
Accrued mask, mold fees and other expenses for RD	\$7,080	8,211
Payable for purchases of equipment	739	2,276
Accrued software maintenance	1,700	1,830
Accrued payroll and related expenses	3,356	3,837
Accrued professional service fee	1,438	1,210
Accrued warranty costs	679	78
Accrued insurance, welfare expenses, etc.	8,613	5,721
	\$23,605	23,163

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The movement in accrued warranty costs for the years ended December 31, 2009, 2010 and 2011 is as follows:

Period	Balance at beginning of year	Additions (reversal) charged to expense	Amounts utilized	Balance at end of year
	(in thousands)			
Year ended December 31, 2009	\$249	2,920	(2,490 )	679
Year ended December 31, 2010	\$679	3,772	(3,772 )	679
Year ended December 31, 2011	\$679	(321 )	(280 )	78

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

## Note 11. Short-Term Debts

Short-term debts are bank loans with interest rates per annum that ranged from 0.45% to 0.70%, and cash and cash equivalents in the form of time deposits of totaling \$84,200 thousand are pledged as collateral.

As of December 31, 2011, unused credit lines amounted to \$119,242 thousand, which expire between February 2012 and September 2012. Among which, \$2,000 thousand expired in February 2012.

## Note 12. Government Grants

The Company entered into several contracts with Department of Industrial Technology of Ministry of Economic Affairs (DOIT of MOEA) and Institute for Information Industry (III) during 2009, 2010 and 2011 primarily for the development of certain new leading products or technologies. Details of these contracts are summarized below:

Authority	Total Grant (in thousands)	Execution Period	Product Description
DOIT of MOEA	NT\$ 22,670 (US\$703)	August 2007 to July 2009	Display Port IC
DOIT of MOEA	30,240 (US\$919)	October 2008 to September 2010	Multi-standard Decoder iDTV SOC
III	1,860 (US\$57)	March 2009 to November 2009	Himax Headquarter Excellent Program (I)
III	4,340 (US\$140)	January 2010 to November 2011	Himax Headquarter Excellent Program (II)
III	18,700 (US\$582)	January 2010 to December 2011	LCOS Projector Development Program
III	23,220 (US\$770)	June 2011 to February 2013	CMOS Development Program

Government grants recognized by the Company as a reduction of research and development expense and general and administrative expense in the accompanying consolidated statements of income in 2009, 2010 and 2011 were \$534 thousand, \$819 thousand and \$688 thousand, respectively.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

##### Note 13. Retirement Plan

The Company has established a Defined Benefit Plan covering full-time employees in the ROC which were hired by the Company before January 1, 2005. In accordance with the Defined Benefit Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Retirement benefits are based on years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for each of the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. Retirement benefits are paid to eligible participants on a lump-sum basis upon retirement.

Defined Benefit Plan assets consist entirely of a Pension Fund (the "Fund") denominated solely in cash, as mandated by ROC Labor Standard Law. The Company contributes an amount equal to 2% of wages and salaries paid every month to the Fund (required by law). The Fund is administered by a pension fund monitoring committee (the "Committee") and is deposited in the Committee's name in the Bank of Taiwan.

The Company's pension fund is managed by a government-established institution with minimum return guaranteed by government and the fund asset is treated as cash category.

Beginning July 1, 2005, pursuant to the newly effective ROC Labor Pension Act, the Company is required to make a monthly contribution for full-time employees in the ROC that elected to participate in the Defined Contribution Plan at a rate no less than 6% of the employee's monthly wages to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance. Expense recognized in 2009, 2010 and 2011, based on the contribution called for was \$1,354 thousand, \$1,507 thousand and \$1,801 thousand, respectively.

Substantially all participants in the Defined Benefits Plan had elected to participate in the Defined Contribution Plan. The transfer of participants to the Defined Contribution Plan did not have a material effect on the Company's financial position or results of operations. Participants' accumulated benefits under the Defined Benefit Plan are not impacted by

their election to change the plans and their seniority remains regulated by ROC Labor Standard Law, such as the retirement criteria and the amount payable. The Company is required to make contribution for the Defined Benefit Plan until it is fully funded. Pursuant to relevant regulatory requirements, the Company expects to make a cash contribution of \$134 thousand to its pension fund maintained with the Bank of Taiwan and \$1,882 thousand to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance in 2012.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The Company uses a measurement date of December 31, for the Defined Benefit Plan. The changes in projected benefit obligation, plan assets and details of the funded status of the Plan are as follows:

	December 31,	
	2010	2011
	(in thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$1,332	1,713
Service cost	-	-
Interest cost	29	33
Actuarial loss	352	679
Benefit obligation at end of year	1,713	2,425
Change in plan assets:		
Fair value at beginning of year	1,869	2,176
Actual return on plan assets	31	27
Employer contribution	276	102
Fair value at end of year	2,176	2,305
Funded status	\$463	(120 )
Amounts recognized in the balance sheet consist of:		
Prepaid pension costs	\$631	198
Accrued pension liabilities	(168 )	(318 )
Net amount recognized	\$463	(120 )

Amounts recognized in accumulated other comprehensive income was net actuarial loss of \$465 thousand, \$668 thousand and \$1,241 thousand at December 31, 2009, 2010 and 2011, respectively.

The accumulated benefit obligation for the Defined Benefit Plan was \$603 thousand and \$687 thousand at December 31, 2010 and 2011, respectively. As of December 31, 2010 and 2011, no employee was eligible for retirement or was required to retire.



For the years ended December 31, 2009, 2010 and 2011, the net periodic pension cost consisted of the following:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Service cost	\$ -	-	-
Interest cost	31	29	33
Expected return on plan assets	(40 )	(43 )	(44 )
Net amortization	25	27	36
Net periodic pension cost	\$ 16	13	25

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

The net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2012 is \$69 thousand.

At December 31, 2010 and 2011, the weighted-average assumptions used in computing the benefit obligation are as follows:

	December 31,	
	2010	2011
Discount rate	2.00 %	2.00 %
Rate of increase in compensation levels	4.00 %	5.00 %

For the years ended December 31, 2009, 2010 and 2011, the weighted average assumptions used in computing net periodic benefit cost are as follows:

	Year Ended December 31,		
	2009	2010	2011
	Whole		
Discount rate	2.25 %	2.00 %	2.00 %
Rate of increase in compensation levels	4.00 %	4.00 %	5.00 %
Expected long-term rate of return on pension assets	2.25 %	2.00 %	2.00 %

Management determines the discount rate and expected long-term rate of return on plan assets based on the yields of twenty year ROC central government bonds which is in line with the respective employees remaining service period and the historical long-term rate of return on the above mentioned Fund mandated by the ROC Labor Standard Law.

The benefits expected to be paid from the defined benefit pension plan is \$64 thousand in 2016 and \$198 thousand from 2017 to 2021, and no benefits payments to be paid during the years from 2012 to 2015 and from 2017 to 2020.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

## Note 14. Share-Based Compensation

The amount of share-based compensation expenses included in applicable costs of sales and expense categories is summarized as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Cost of revenues	\$264	240	124
Research and development	10,936	8,803	5,062
General and administrative	1,959	1,525	872
Sales and marketing	1,902	1,613	1,005
	\$15,061	12,181	7,063

(a)

Long-term Incentive Plan

On October 25, 2005, the Company's shareholders approved a long-term incentive plan. The plan permits the grants of options or RSUs to the Company's employees, directors and service providers where each unit of RSU represents two ordinary shares of the Company (after recapitalization effected on August 10, 2009). The 2005 plan was terminated in October 2010.

On September 29, 2006, the Company's compensation committee made grants of 3,798,808 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 47.29% of the RSUs grant vested immediately on the grant date and a subsequent 17.57% that vested on each of September 30, 2007, 2008 and 2009, subject to certain forfeiture events.

On September 26, 2007, the Company's compensation committee made grants of 6,694,411 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 54.55% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$14,426 thousand, a subsequent 15.15% that vested on each of September 30, 2008, 2009 and 2010 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 29, 2008, the Company's compensation committee made grants of 7,108,675 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 60.64% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$12,714 thousand, a subsequent 13.12% will vest on each of September 30, 2009, 2010 and 2011 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

On September 28, 2009, the Company's compensation committee made grants of 3,577,686 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 55.96% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$6,508 thousand, a subsequent 14.68% will vest on each of September 30, 2010, 2011 and 2012 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 28, 2010, the Company's compensation committee made grants of 3,488,952 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 68.11% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$5,870 thousand, a subsequent 10.63% will vest on each of September 30, 2011, 2012 and 2013 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 7, 2011, the Company's shareholders approved another long-term incentive plan. The 2011 plan permits the grants of options or RSUs to the Company's employees, directors and service providers where each unit of RSU represents two ordinary shares of the Company.

On September 28, 2011, the Company's compensation committee made grants of 2,727,278 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 97.36% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$2,873 thousand, a subsequent 0.88% will vest on each of September 30, 2012, 2013 and 2014 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

The amount of compensation expense from the long-term incentive plan was determined based on the estimated fair value and the market price of ADS (one ADS represents two ordinary shares) underlying the RSUs granted on the date of grant, which were \$5.71 per ADS, \$3.95 per ADS, \$2.95 per ADS, \$3.25 per ADS, \$2.47 per ADS and \$1.1 per ADS on September 29, 2006, September 26, 2007, September 29, 2008, September 28, 2009, September 28, 2010 and September 28, 2011, respectively.

In December 2007, due to the carve-out of television semiconductor solutions business to incorporate Himax Media Solutions, Inc. (“Himax Media Solution”, a consolidated subsidiary), 145 employees were transferred from Himax Taiwan to Himax Media Solutions. 361,046 units of these employees’ unvested RSUs were cancelled in exchange for 3,416,714 nonvested shares of Himax Media Solutions’ ordinary share. See Note 14 (b)(iii) for further details of the modification of award.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

RSUs activity under the long-term incentive plan during the periods indicated is as follows:

	Number of Underlying Shares for RSUs	Weighted Average Grant Date Fair Value
Balance at January 1, 2009	4,536,295	\$ 3.54
Granted	3,577,686	3.25
Vested	(4,014,338 )	3.58
Forfeited	(261,891 )	3.57
Balance at December 31, 2009	3,837,752	3.23
Granted	3,488,952	2.47
Vested	(4,145,854 )	2.84
Forfeited	(492,468 )	3.10
Balance at December 31, 2010	2,688,382	2.87
Granted	2,727,278	1.10
Vested	(4,096,965 )	1.74
Forfeited	(146,307 )	2.87
Balance at December 31, 2011	1,172,388	2.68

As of December 31, 2011, the total compensation cost related to the unvested RSUs not yet recognized was \$2,286 thousand. The weighted-average period over which it is expected to be recognized is 1.44 years.



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As of December 31, 2011, the 1,100,105 and 72,283 unvested RSUs were outstanding under 2005 plan and 2011 plan, respectively.

In 2010 and 2011, the Company settled RSUs releases with newly issued shares of ordinary shares were 3,538,632 shares and 2,971,212 shares, respectively.

The allocation of compensation expenses from the RSUs granted to employees and independent directors under the long-term incentive plan is summarized as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Cost of revenues	\$264	240	124
Research and development	10,078	8,153	4,790
General and administrative	1,938	1,505	863
Sales and marketing	1,853	1,587	996
	\$14,133	11,485	6,773

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011****(b) Nonvested Shares Issued to Employees**

In September 2005, Himax Analogic granted nonvested shares of its ordinary shares to certain employees for their future service. The shares vested over four years after the grant date. The Company recognized compensation expenses of \$15 thousand in 2009. Such compensation expense was recorded as research and development (i) expenses in the accompanying consolidated statements of income with a corresponding increase to noncontrolling interests in the accompanying consolidated balance sheets. The fair value of shares on grant date was estimated based on the then most recent price of new shares issued to unrelated third parties, which was NT\$10 (US\$0.319) per share.

Nonvested share activity of this award during the period indicated is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at January 1, 2009	673,000	\$ 0.319
Forfeited	(15,000 )	0.319
Vested	(658,000 )	0.319
Balance at December 31, 2009	-	-

As of December 31, 2009, the total compensation cost related to this award has been fully recognized.

During September 2007 to December 2010, Himax Imaging Inc. (“Imaging Cayman”, a consolidated subsidiary) granted nonvested shares of its ordinary shares to certain employees for their future service, and the employees must pay \$0.15 or \$0.3 (employees hired after March 1, 2009) per share. The shares vest over four years after the grant date. If employees leave Himax Imaging before completing the four year service period, they would sell these shares back to Himax Imaging at their original purchase price. On January 1, 2011, 5,346,777 unvested (ii) ordinary shares of Imaging Cayman were cancelled in exchange for 1,939,490 unvested ordinary shares of Himax Imaging Ltd. (“Imaging Taiwan”, a consolidated subsidiary) by per ordinary share of Imaging Cayman in exchange for 0.36274 ordinary share of Imaging Taiwan. The plan will continue to vest according to the original vesting schedule. In 2009 and 2010, Company recognized compensation expenses of \$340 thousand, \$355 thousand with the fair value of shares of Imaging Cayman on grant date based on the then most recent price of new shares issued, which was US\$0.33 per share.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

During 2011, Imaging Cayman granted nonvested shares of Imaging Taiwan's ordinary shares to certain employees for their future service, and the employees must pay NT\$30 (\$1.03) per share. The shares vest over one year or three years after the grant date. If employees leave Himax Imaging before completing the service period, Himax Imaging should have the option to buy the vested shares back or not at employees' original purchase price.

In 2011, the Company recognized compensation expenses of \$71 thousand which was determined based on the estimated fair value of the ordinary shares of Imaging Taiwan on the date of grant, which was NT\$21 (US\$0.72) per share. Such compensation expense was recorded as research and development expenses, general and administrative expense and sales and marketing expense in the accompanying consolidated statements of income with a corresponding increase to noncontrolling interests in the accompanying consolidated balance sheets. The fair value of ordinary shares was determined based on a third-party valuation conducted by an independent third-party appraiser.

Nonvested share activity of this award for Imaging Cayman during the period indicated is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at January 1, 2009	4,570,771	\$ 0.33
Granted	2,253,000	0.33
Vested	(903,882 )	0.33
Forfeited	(271,000 )	0.33
Balance at December 31, 2009	5,648,889	0.33
Granted	1,380,000	0.33
Vested	(868,390 )	0.33
Forfeited	(813,722 )	0.33
Balance at December 31, 2010	5,346,777	0.33
Cancelled	(5,346,777)	0.33

Balance at December 31, 2011 - -

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Non-vested share activity of this award for Imaging Taiwan during the period indicated is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2011	1,939,490	\$ 0.72
Granted	567,689	0.72
Vested	(601,129 )	0.72
Forfeited	(28,971 )	0.72
Balance at December 31, 2011	1,877,079	0.72

As of December 31, 2011, the total compensation cost related to this award not yet recognized was \$68 thousand. The weighted-average period over which it is expected to be recognized is 1.76 years.

(iii) As stated in Note 14 (a) above, in December 2007, Himax Media Solutions granted 3,416,714 non-vested shares of its ordinary shares to 145 employees transferred from Himax Taiwan to exchange for 361,046 units of these employees' unvested RSUs. The modification of equity award incurred an incremental compensation cost of \$148 thousand for the excess of the fair value of the modified award issued over the fair value of the original unvested RSUs at the date of modification. The Company then added incremental compensation cost to the remaining unrecognized compensation cost of the original award at the date of modification and the total compensation cost are recognized as compensation expenses ratably over the requisite service period of the modified award.

The fair value of the original unvested RSUs was determined based on the average market price of the Company's ordinary shares underlying the RSU at the modification dates occurred during the period from November 12, 2007 to November 16, 2007. The fair value of Himax Media Solutions' non-vested shares at the modification date was determined based on the then most recent price of Himax Media Solutions' new shares issued to unrelated third parties, which was NT\$15 (US\$0.464) per share.

The vesting schedule for the non-vested shares is as follows: 50% will vest on June 20, 2009 and the remaining 50% will vest on December 20, 2010. The Company recognized compensation expenses of \$432 thousand and \$161 thousand in 2009 and 2010, respectively. Such compensation expense was recorded as sales and marketing expense and research and development expenses in the accompanying consolidated statements of income.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Non-vested share activity of this award during the period indicated is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2009	3,022,525	\$ 0.464
Vested	(1,432,000)	0.464
Forfeited	(469,525 )	0.464
Balance at December 31, 2009	1,121,000	0.464
Vested	(988,000 )	0.464
Forfeited	(133,000 )	0.464
Balance at December 31, 2010	-	-

As of December 31, 2010, the total compensation cost related to this award has been fully recognized.

(c) Employee stock options

On December 20, 2007 and October 20, 2009, board of directors of Himax Media Solutions approved two plans, the 2007 plan and the 2009 plan, respectively, to grant stock options to certain employees. These two plans authorize grants to purchase up to 6,800,000 shares and 2,300,000 shares, respectively, of Himax Media Solutions' authorized but unissued ordinary shares. The exercise price was NT\$15 (US\$0.464) and NT\$10 (US\$0.311), respectively.

On November 29, 2011, Himax Media Solutions' general shareholders' meeting approved a capital reduction plan to offset its loss by a ratio of 75% and effected on December 12, 2011. Concurrently with the capital reduction plan, the exercise price was changed to NT\$60(US\$1.856) and NT\$40(US\$1.244), respectively.



All options under these plans have four-year terms and 50%, 25% and 25% of each grant will become exercisable subsequent to the second, third and fourth anniversary of the grant date, respectively. The Company recognized compensation expenses of \$141 thousand, \$180 thousand and \$219 thousand in 2009, 2010 and 2011, respectively. Such compensation expense was recorded as sales and marketing expense, general and administrative expense and research and development expenses in the accompanying consolidated statements of income.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

At December 31, 2011, there were 304,500 and 1,000 additional shares available for Himax Media Solutions' grant under the 2007 plan and the 2009 plan, respectively. The calculated value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Himax Media Solutions uses the simplified method to estimate the expected term of the options as it does not have sufficient historical share option exercise experience and the exercise data relating to employees of other companies is not easily obtainable. Since Himax Media Solutions' shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rates for the expected term of the options are based on the interest rate of 10 years and 5 years ROC central government bond at the time of grant for the 2007 plan and the 2009 plan, respectively.

	2007		2009	
Valuation assumptions:				
Expected dividend yield	0	%	0	%
Expected volatility	39.94	%	51.52	%
Expected term (years)	4.375		4.375	
Risk-free interest rate	2.4776	%	2	%

Number of shares and related data have been retroactively adjusted to reflect the effect of Himax Media Solutions' capital reduction. A summary of stock options activity during the periods indicated is as follows:

	<b>Number of shares</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual term</b>
Balance at January 1, 2009	1,416,875	\$ 1.856	3.375

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Granted	574,750	1.244	
Exercised	-	-	
Forfeited	(298,375 )	1.784	
Balance at December 31, 2009	1,693,250	1.664	2.826
Granted	-	-	
Exercised	-	-	
Forfeited	(249,375 )	1.680	
Balance at December 31, 2010	1,443,875	1.660	2.452
Granted	444,500	1.834	
Exercised	-	-	
Forfeited	(346,813 )	1.717	
Balance at December 31, 2011	1,541,562	1.696	1.803
Exercisable at December 31, 2011	1,347,188	1.761	

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

The weighted average grant date calculated value of the options granted in 2007 and 2009 were NT\$21.6608 (US\$0.672) and NT\$5.2 (US\$0.160), respectively.

#### Note 15. Equity

(a) Share capital

On August 6, 2009, the Company's annual general shareholders' meeting approved a recapitalization plan as below:

Increase of authorized share capital: to increase the authorized share capital of the Company from US\$50 thousand (i) divided into 500,000 thousand shares of par value US\$0.0001 each to US\$300,000 thousand divided into 3,000,000,000 thousand shares of par value US\$0.0001 each.

(ii) Distribution of stock dividends: distribute 5,999 shares of stock dividend for each ordinary share then outstanding as of August 7, 2009 from the additional paid-in capital account.

(iii) Shares consolidation: immediately following the issuance of stock dividend, every three thousand issued and unissued shares of par value US\$0.0001 each are consolidated into one ordinary share of US\$0.3 par value each.

(iv) Change of par value: change the par value of ordinary shares from US\$0.0001 per share to US\$0.3 per share effect from August 10, 2009.

Concurrently with the recapitalization plan, the ADS was changed to have one ADS represent two ordinary shares, as compared to the previous ratio of one ADS represents one ordinary share. As a result of the ADS ratio change, the percentage ownership of the Company's share capital represented by each ADS immediately before and after the

recapitalization plan, will remain unchanged.

In accordance with the Company's board of director's resolution on November 14, 2008, the Company authorized another new share buyback program. The program allows the Company to repurchase up to \$50 million of the Company's ADSs for retirement. The Company repurchased 2,369,091 ADSs, 13,125,251 ADSs and 3,854,026 ADSs in 2008, 2009 and 2010, respectively, from open market. In total, the Company has repurchased \$50 million or 19,348,368 ADSs in the open market at an average price of US\$2.58 per ADS.

In accordance with the Company's board of director's resolution on June 20, 2011, the Company authorized another new share buyback program. The program allows the Company to repurchase up to \$25 million of the Company's ADSs.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

In April 2011, the Companies Law of the Cayman Islands was amended to permit treasury shares if so approved by the board and to the extent that the articles do not prohibit treasury shares. Therefore, the Company would hold the treasury shares not been cancelled used for settle future employees awards.

The Company repurchased \$4.6 million or 3,767,210 ADSs in the open market at an average price of US\$1.23 per ADS in 2011. Among which, 3,709,963 ADSs was held by the Company as of December 31, 2011.

(b)

Earnings distribution

As a holding company, the major asset of the Company is the 100% ownership interest in Himax Taiwan. Dividends received from the Company's subsidiaries in Taiwan, if any, will be subjected to withholding tax under ROC law. The ability of the Company's subsidiaries to pay dividends, repay intercompany loans from the Company or make other distributions to the Company may be restricted by the availability of funds, the terms of various credit arrangements entered into by the Company's subsidiaries, as well as statutory and other legal restrictions. The Company's subsidiaries in Taiwan are generally not permitted to distribute dividends or to make any other distributions to shareholders for any year in which it did not have either earnings or retained earnings (excluding reserve). In addition, before distributing a dividend to shareholders following the end of a fiscal year, a Taiwan company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve.

The accumulated legal and special reserve provided by Himax Taiwan as of December 31, 2010 and 2011 amounting to \$45,638 thousand and \$47,297 thousand, respectively.

Note 16. Income Taxes

Substantially all of the Company's earnings from continuing operations before income taxes is derived from the operations in the ROC and, therefore, substantially all of the Company's income tax expense (benefit) attributable to income from continuing operations is incurred in the ROC.

In May 2009, the ROC government promulgated an amendment of the Income Tax Act. According to the amendment, the income tax rate of Taiwan profit-seeking enterprises reduced to 20% from 25%, effective in 2010. In June 2010, the ROC government re-promulgated an amendment of the Income Tax Act, the income tax rate of profit-seeking enterprises reduced to 17% from 20% which retroactively effective from January 1, 2010. The Company had calculated the deferred tax assets and liabilities in accordance with the amended law and adjusted the resulting difference as income tax benefit or expense. Effective January 1, 2006, an alternative minimum tax ("AMT") in accordance with the Income Basic Tax Act ("IBTA") is calculated.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

An additional 10% corporate income tax is assessed on undistributed income for the entities in the ROC, but only to the extent such income is not distributed or set aside as legal reserve before the end of the following year. The 10% surtax is recorded in the period the income is earned, and the reduction in the surtax liability is recognized in the period the distribution to shareholders or the setting aside of legal reserve is finalized in the following year. The tax base of the undistributed income surtax is “net income under ROC generally accepted accounting principles (ROC GAAP)”, the tax effects of temporary differences between ROC GAAP and tax base are initially measured at the distributed tax rate of 20%, 17% and 17% for December 31, 2009, 2010 and 2011, respectively. The tax effects of temporary differences that arise from the difference between US GAAP and ROC GAAP are measured at the undistributed tax rate of 27.2%, 24.47% and 24.47% for December 31, 2009, 2010 and 2011, respectively.

In accordance with the ROC Statute for Upgrading Industries, Himax Taiwan’s capital increase in 2003 and 2004 and Himax Semiconductor’s newly incorporated investment in 2004 related to the manufacturing of newly designed TFT-LCD driver was approved by the government authorities as a newly emerging, important and strategic industry. The incremental income derived from selling the above new product is tax exempt for a period of five years.

The Company is entitled to the following tax exemptions:

Date of investment	Tax exemption period
Himax Taiwan:	
September 1, 2003	April 1, 2004-March 31, 2009
October 29, 2003	January 1, 2006-December 31, 2010
September 20, 2004	January 1, 2008-December 31, 2012
Himax Semiconductor:	
August 26, 2004	January 1, 2009-December 31, 2013

The income before income taxes for domestic and foreign entities is as follows:



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	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Taiwan operations	\$45,160	38,235	17,210
US operations	39	(55 )	151
China operations	(215 )	157	1,293
Korea operations	(75 )	177	32
Others	(1,184 )	(3,220 )	(1,878 )
	\$43,725	35,294	16,808

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The components of the income tax expense attributable to income from continuing operations before taxes for the years ended December 31, 2009, 2010 and 2011 consist of the following:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Current:			
Taiwan operations	\$6,407	1,589	2,005
US operations	26	33	104
China operations	34	112	120
Korea operations	-	12	5
Others	-	1	-
Total current	6,467	1,747	2,234
Deferred:			
Taiwan operations	1,443	4,518	4,902
US operations	12	(30 )	5
China operations	1	(15 )	162
Korea operations	(8 )	8	(2 )
Others	-	-	-
Total deferred	1,448	4,481	5,067
Income tax expense	\$7,915	6,228	7,301

Since the Company is based in the Cayman Islands, a tax-free country, domestic tax on pretax income is calculated at the Cayman Islands statutory rate of zero for each year.

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 2009, 2010 and 2011 are as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Deferred income tax expense (benefit), exclusive of the effects of other components listed below	\$(11,182)	(13,141)	1,085
Adjustments to deferred tax assets and liabilities for changes in enacted tax laws and rates	5,224	3,144	(1 )
Increase in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	7,406	14,478	5,406
	\$1,448	4,481	6,490

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The differences between expected income tax expense, computed based on the ROC statutory income tax rate of 25% in 2009 and 17% in 2010 and 2011, and the actual income tax expense as reported in the accompanying consolidated statements of income for the years ended December 31, 2009, 2010 and 2011 are summarized as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Expected income tax expense	\$10,931	6,000	2,857
Tax-exempted income	(9,377 )	(3,567 )	(836 )
Tax on undistributed retained earnings	5,816	1,643	3,424
Tax benefit resulting from setting aside legal reserve from prior year's income	(953 )	(639 )	(164 )
Adjustment to deferred tax assets and liabilities for enacted change in tax laws and rates	5,224	3,144	(1 )
Investment loss from subsidiary decreased the capital for offset the deficit	-	-	(1,821)
Increase in investment tax credits	(13,809)	(3,687 )	(1,692)
Increase in deferred tax asset valuation allowance	8,450	12,408	6,823
Non-deductible share-based compensation expenses	458	178	589
Provision for uncertain tax position in connection with share-based compensation expenses	416	133	-
Decrease in unrecognized tax benefits related to prior year uncertain tax positions, net of its impact to tax-exempted income	-	(2,295 )	(6,759)
Tax effect resulting from foreign entities' monetary assets or liabilities that are denominated in functional currency	-	(4,885 )	6,677
Transaction gain or loss resulted from remeasuring deferred foreign tax liabilities or assets	(1,016 )	(3,392 )	1,211
Tax effect of the difference resulting from remeasuring foreign entities' nonmonetary assets	691	(1,043 )	(4,627)
Foreign tax rate differential	1,184	1,320	1,350
Variance from audits of prior years' income tax filings	(538 )	1,205	476
Others	438	(295 )	(206 )
Actual income tax expense	\$7,915	6,228	7,301

The basic and diluted earnings per ordinary share effect resulting from the income tax exemption for the years ended December 31, 2009, 2010 and 2011, is a \$0.03, \$0.01 and nil, increase to earnings per ordinary share, respectively.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The total income tax expense for the years ended December 31, 2009, 2010 and 2011 was allocated as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Income from continuing operations	\$7,915	6,228	7,301
Other comprehensive loss	(18 )	(54 )	(125 )
Total income tax expense	\$7,897	6,174	7,176

As of December 31, 2010 and 2011, the components of deferred income tax assets (liabilities) were as follows:

	December 31,	
	2010	2011
	(in thousands)	
Deferred tax assets:		
Inventory	\$4,482	4,219
Allowance for doubtful accounts	2,556	2,303
Equity method investments	38	-
Capitalized expense for tax purposes	28	13
Accrued compensated absences	67	88
Allowance for sales return, discounts and warranty	223	147
Unused investment tax credits	49,084	39,393
Unused loss carry-forward	18,466	20,919
Unrealized foreign exchange loss	5,178	135
Accrued pension cost	168	296
Other	325	308
Total gross deferred tax assets	80,615	67,821
Less: valuation allowance	(42,906)	(35,241)
Net deferred tax assets	37,709	32,580

Deferred tax liabilities:		
Unrealized foreign exchange gain	(293 )	(2,112 )
Prepaid pension cost	(360 )	(361 )
Acquired intangible assets	(1,541 )	(1,041 )
Property, plant and equipment	(31 )	(36 )
Deferred shared based compensation	(89 )	-
Total gross deferred tax liabilities	(2,314 )	(3,550 )
Net deferred tax assets	\$35,395	29,030

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

As of December 31, 2011, the Company has not provided for income taxes on the undistributed earnings of approximately \$467,662 thousand of its foreign subsidiaries since the Company has specific plans to reinvest these earnings indefinitely. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

The valuation allowance for deferred tax assets as of January 1, 2009, 2010 and 2011 was \$21,022 thousand, \$28,428 thousand and \$42,906 thousand, respectively. The net change in the valuation allowance for the years ended December 31, 2009, 2010 and 2011, was an increase of \$7,406 thousand, \$14,478 thousand and a decrease of \$7,665 thousand, respectively. Effective January 1, 2009, any recognition of tax benefit related to changes in the valuation allowance for acquired deferred tax assets should be recorded in the consolidated statements of income under ASC 805 (SFAS No. 141R), *Business Combination*.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carry-forward utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deferred tax assets, net of the valuation allowance at December 31, 2011. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

Each entity within the Company files separate standalone income tax return. Except for Himax Taiwan, Himax Korea, Himax Technologies (Suzhou) Co., Ltd., Himax Technologies (Shenzhen) Co., Ltd., and Himax Imaging Corp., most of other subsidiaries of the Company have generated tax losses since their inception, therefore, a valuation allowance of \$31,569 thousand and \$31,905 thousand as of December 31, 2010 and 2011, respectively, were provided to reduce their deferred tax assets (consisting primarily of operating loss carry-forward and unused investment tax credits) to zero because management believes it is unlikely that these tax benefits will be realized. The total tax loss



carry-forward for these subsidiaries at December 31, 2011 was \$123,085 thousand, which will expire if unused by 2021. The total unused investment tax credits for these subsidiaries at December 31, 2011 were \$11,180 thousand, which will expire if unused by 2013.

In addition, a valuation allowance of \$11,337 thousands and \$3,336 thousands as of December 31, 2010 and 2011, respectively, was provided to reduce Himax Taiwan's deferred tax assets related to unused investment tax credits.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

As ROC Income Tax Acts has been amended in January 2009, the tax loss carry-forward in the preceding ten years would be deducted from tax income. That amendment is effective for the Company beginning 2009 and extends the period of tax loss carry-forward for certain subsidiaries.

According to the ROC Statute for Upgrading Industries, expired on December 31, 2009, the purchase of machinery for the automation of production, expenditure for research and development and training of professional personnel, each occurring before December 31, 2009, entitles the Company to tax credits. These credits may be applied over a period of five years. The amount of the credit that may be applied in any year, except the final year, is limited to 50% of the income tax payable for that year. There is no limitation on the utilization of the amount of investment tax credit to offset the income tax payable in the final year. Also, investments in shares originally issued by ROC domestic companies that are newly emerging, important and strategic industries, entitles the Company after a three year holding period to a tax credit of twenty percent of the price paid for the acquisition of such shares. The credit also may be applied over a period of five years.

On May 12, 2010, the Statute for Industrial Innovation was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. The Statute for Industrial Innovation entitles companies to investment tax credits for research and development expenses related to innovation activities but limits the amount of investment tax credit to only up to 15% of the total research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused investment tax credits provided under the Statute for Industrial Innovation can not be carried forward.

As of December 31, 2011, all of the Company's unused investment tax credits of NT\$1,192,638 thousand (US\$39,393 thousand) reported for tax return purposes will expire if unused by 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

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For the year ended December 31,  
 2009      2010      2011  
 (in thousands)

Balance at beginning of year	\$ 5,718	8,450	6,892
Increase related to prior year tax positions	-	-	-
Decrease related to prior year tax positions	-	(2,295 )	(6,759 )
Increase related to current year tax positions	2,587	133	-
Effect of exchange rate change	145	604	(5 )
Balance at end of year	\$ 8,450	6,892	128

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Included in the balance of total unrecognized tax benefits at December 31, 2010 and 2011, are potential benefits of \$6,286 thousand and \$128 thousand, respectively that if recognized, would reduce the Company's effective tax rate. No interest and penalties related to unrecognized tax benefits were recorded by the Company for the years ended December 31, 2009, 2010 and 2011. The Company's major taxing jurisdiction is Taiwan. All Taiwan subsidiaries' income tax returns have been examined and assessed by the ROC tax authorities through 2009. The tax year 2010 remains open to examination by the ROC tax authorities. Taiwanese entities are customarily examined by the tax authorities and it is possible that a future examination will result in a positive or negative adjustment to the Company's unrecognized tax benefits within the next 12 months; however, management is unable to estimate a range of the tax benefits or detriment as of December 31, 2011.

## Note 17. Fair Value Measurement

The following table presents the Company's financial assets and liabilities that are measured at fair value on a recurring basis which were comprised of the following types of instruments at December 31, 2010 and 2011:

	<b>Fair Value Measurements at</b>		
	<b>December 31, 2010</b>		
	<b>Using</b>		
	Level 1	Level 2	Level 3
	(in thousands)		
Assets:			
Cash and cash equivalents:			
Time deposits with original maturities less than three months	\$77,500	-	-
Marketable securities available-for-sale:			
Time deposit with original maturities more than three months	-	171	-
Open-ended bond fund	8,460	-	-
Investment securities available-for-sale:			

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Corporate straight bonds	-	-	5,196
Restricted cash and cash equivalents :			
Time deposits with original maturities less than three months	45,000	-	-
Other assets:			
Embedded conversion option	-	-	1,004
Restricted marketable securities:			
Time deposits with original maturities of more than three months	-	172	-
Total	\$ 130,960	343	6,200

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011****Fair Value  
Measurements at**

**December 31, 2010**  
**Using**  
 Level 1    Level 2    Level 3  
 (in thousands)

## Liabilities:

Short-term debt	\$-	57,000	-
Total	\$-	57,000	-

**Fair Value Measurements  
at**

**December 31, 2011 Using**  
 Level 1    Level 2    Level 3  
 (in thousands)

## Assets:

## Cash and cash equivalents:

Time deposits with original maturities less than three months	\$72,000	-	-
Marketable securities available-for-sale:			
Time deposit with original maturities more than three months	-	165	-
Investment securities available-for-sale:			
Corporate straight bonds	-	-	5,080
Restricted cash and cash equivalents :			
Time deposits with original maturities less than three months	44,000	-	-
Other assets:			
Embedded conversion option	-	-	174
Restricted marketable securities:			
Time deposits with original maturities of more than three months	-	1,266	-
Total	\$116,000	1,431	5,254
Liabilities:			
Short-term debt	\$-	84,200	-

Total	\$-	84,200	-
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Non-financial assets such as goodwill, intangible assets, and property, plant, and equipment are measured at fair value only when an impairment loss is recognized. No such impairments were recognized in 2009, 2010 and 2011.

There were no transfers between Level 1 and Level 2 of fair value hierarchy and no transfers into or out of Level 3 financial instruments during the year ended December 31, 2011.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The following table summarizes changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2010 and 2011:

	<b>Corporate bonds</b>	<b>Derivatives- straight Conversion option</b>	<b>Total</b>
	(in thousands)		
Purchases, issuances, and settlements	\$4,365	684	5,049
Total unrealized gains included in earnings	52	320	372
Total unrealized gains included in other comprehensive income, net	779	-	779
Balance at December 31, 2010	5,196	1,004	6,200
Total unrealized gains (losses) included in earnings	67	(830 )	(763 )
Total unrealized losses included in other comprehensive income, net	(183 )	-	(183 )
Balance at December 31, 2011	\$5,080	174	5,254
The amount of total gains in 2010 included in earnings attributable to the change in unrealized gains relating to assets and liabilities still held December 31, 2010	\$52	320	372
The amount of total gains (losses) in 2011 included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held December 31, 2011	\$67	(830 )	(763 )

The Company estimated the fair value for corporate straight bond and conversion option based on an external expert's valuation report. The calculated fair values are estimated by using Binomial Model. The measure is based on significant inputs that are not observable in the market, which are Level 3 inputs. Key valuation assumptions include (a) a discount rate of 1.5985% and 1.4532% at December 31, 2010 and 2011, respectively, which are based on risk-free rates plus issuer's risk premium for the expected terms. The risk-free rate of 1.0485% and 0.9139% applied for the expected terms of 4.6 years and 3.6 years at December 31, 2010 and 2011, respectively, were derived from the yield rate of 2 years and 5 years ROC central government bond at the reporting date. The investee's risk premium of 0.55% and 0.54% at December 31, 2010 and 2011, respectively, that are based on the risk premium of the unsecured bank loan of the peer; (b) an expected volatility of 40.71% and 40.78% at December 31, 2010 and 2011, respectively, was used in the valuation of conversion option, which are based on the average historical volatility of the issuer's



publicly traded shares.

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## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

#### December 31, 2009, 2010 and 2011

##### Note 18. Significant Concentrations

Financial instruments that currently subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities and accounts receivable. The Company places its cash primarily in checking and saving accounts with reputable financial institutions. The Company has not experienced any material losses on deposits of the Company's cash and cash equivalents. Marketable securities consist of time deposits with original maturities of greater than three months, corporate convertible bond and investments in open-ended bond fund identified to fund current operations.

The Company derived substantially all of its revenues from sales of display drivers that are incorporated into TFT-LCD panels. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions and subject to price fluctuations. Management expects the Company to be substantially dependent on sales to the TFT-LCD panel industry for the foreseeable future.

The Company depends on its largest customer, CMO and its affiliates, which are a related party to the Company, for majority of its revenues and the loss of, or a significant reduction in orders would significantly reduce the Company's revenues and adversely impact the Company's operating results. In November 2009, CMO, Innolux Display Corporation, and TPO Displays Corporation agreed to conduct a merger of the three companies. The merger transaction was completed on March 18, 2010. Innolux is the surviving entity following the merger and is renamed Chimei Innolux Corporation, or CMI. CMO/CMI and its affiliates accounted for approximately 64.3%, 52.2% and 40.8%, respectively, of the Company's revenues in 2009, 2010 and 2011, and represented more than 10% of the Company's total accounts receivable balance at December 31, 2010 and 2011. CMO/CMI and its affiliates accounted for approximately 54.3% and 44.1% of the Company's total accounts receivable balance at December 31, 2010 and 2011, respectively. In addition, the Company had accounts receivable of \$16.7 million and \$15.2 million outstanding from SVA-NEC as of December 31, 2010 and 2011. Since second half of 2008, SVA-NEC has delayed paying a large portion of its outstanding accounts receivable. Due to the increasing concern about SVA-NEC's financial condition, the Company recognized a provision for doubtful accounts receivable of \$25.3 million for the year ended December 31, 2008. Afterwards, the Company recovered \$8.6 million and \$1.5 million in cash from SVA-NEC in October 2010 and March 2011, respectively. The allowance for doubtful accounts for SVA-NEC's accounts receivable is \$16.7 million and \$15.2 million as of December 31, 2010 and 2011. The Company has at times agreed to extend the payment terms for certain of its customers. Other customers have also requested extension of payment terms, and the

Company may grant such requests for extension in the future. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable, or the extension of payment terms for the Company's customers would adversely affect the Company's cash flow, liquidity and operating results. Management performs ongoing credit evaluations of each customer and adjusts credit policy based upon payment history and the customer's credit worthiness, as determined by the review of their current credit information. See Notes 19 and 21 for additional information.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

The Company focuses on design, development and marketing of its products and outsources all its semiconductor fabrication, assembly and test. The Company primarily depends on nine foundries to manufacture its wafer, and any failure to obtain sufficient foundry capacity or loss of any of the foundries it uses could significantly delay the Company's ability to ship its products, cause the Company to lose revenues and damage the Company's customer relationships.

There are a limited number of companies which supply processed tape used to manufacture the Company's semiconductor products and therefore, from time to time, shortage of such processed tape may occur. If any of the Company's suppliers experience difficulties in delivering processed tape used in its products, the Company may not be able to locate alternative sources in a timely manner. Moreover, if shortages of processed tape were to occur, the Company may incur additional costs or be unable to ship its products to customers in a timely manner, which could harm the Company's business customer relationships and negatively impact its earnings.

A limited number of third-party assembly and testing houses assemble and test substantially all of the Company's current products. As a result, the Company does not directly control its product delivery schedule, assembly and testing costs and quality assurance and control. If any of these assembly and testing houses experiences capacity constraints or financial difficulties, or suffers any damage to its facilities, or if there is any other disruption of its assembly and testing capacity, the Company may not be able to obtain alternative assembly and testing services in a timely manner. Because the amount of time the Company usually takes to qualify assembly and testing houses, the Company could experience significant delays in product shipments if it is required to find alternative sources. Any problems that the Company may encounter with the delivery, quality or cost of its products could damage the Company's reputation and result in a loss of customers and orders.

Note 19. Related-party Transactions

(a) Name and relationship

**Name of related parties** Relationship

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Chimei Innolux Corporation (CMI)	Principal Owner (1)
Chi Mei Optoelectronics Corp. (CMO)	The Company's Chairman represented on CMO's Board of Directors, expired on March 18, 2010(1)
Chi Mei Optoelectronics Japan, Co., Ltd. (CMO-Japan)	Wholly owned subsidiary of CMI (2)
Chi Mei Corporation (CMC)	Major shareholder of CMI

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

<b>Name of related parties</b>	<b>Relationship</b>
NEXGEN Mediatech Inc. (NEXGEN)	The Company's Chairman represented on NEXGEN's Board of Directors, not included as related party since July 2011
Chi Lin Technology Co., Ltd. (Chi Lin Tech)	The Company's Chairman represented on Chi Lin Tech's Board of Directors, not included as related party since May 2011
NingBo Chi Mei Electronics Ltd. (CME-NingBo)	The subsidiary of CMI (2)
NingBo Chi Mei Optoelectronics Ltd. (CMO-NingBo)	The subsidiary of CMI (2)
Chi Mei EL Corporation (CMEL)	The subsidiary of CMI (2)
NanHai Chi Mei Optoelectronics Ltd. (CMO-NanHai)	The subsidiary of CMI (2)
Chi Hsin Electronics Corp. (Chi Hsin)	The subsidiary of CMO, which merged with CMO on May 31, 2009, CMO was the surviving company
Chi Mei Logistics Corp. (CMLC)	The subsidiary of CMI (2) , not included as related party since July 2011
NingBo Chi Mei Logistics Corp. (CMLC-NingBo)	The subsidiary of CMI (2)
Foshan Chi Mei Logistics Ltd. (CMLC-Foshan)	The subsidiary of CMI (2)
Dongguan Chi Hsin Electronics Co., Ltd. (Chi Hsin-Dongguan)	The subsidiary of CMI (2)
NingBo ChiHsin Electronics Ltd. (Chi Hsin-NingBo)	The subsidiary of CMI (2)
Fulintec Science Engineering Co., Ltd. (Fulintec)	The subsidiary of CMI (2), not included as related party since May 2011
ShenZhen Nexgen Trading Co., Ltd. (ShenZhen Nexgen)	The subsidiary of NEXGEN, not included as related party since July 2011
TPO Displays Japan K.K. (TPO Japan)	The subsidiary of CMI, as related party since March 18, 2010

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

<b>Name of related parties</b>	<b>Relationship</b>
TPO Displays Hong Kong Limited (TPO Hong Kong)	The subsidiary of CMI, as related party since March 18, 2010
TPO Displays (Shanghai) Ltd. (TPO Shanghai)	The subsidiary of CMI, as related party since March 18, 2010
TPO Displays (Nanjing) Ltd. (TPO-NJ)	The subsidiary of CMI, as related party since March 18, 2010
Lakers Trading Ltd. (Lakers)	The subsidiary of CMI, as related party since March 18, 2010
Contrel Technology Co., Ltd. (Contrel)	Related party in substance, not included as related party since March 18, 2010
Ampower Technology Co., Ltd. (Ampower)	Related party in substance, not included as related party since March 18, 2010
Amlink (Shanghai) Ltd. (Amlink)	Related party in substance, not included as related party since March 18, 2010
Linklinear Development Co, Ltd. (LDC)	Related party in substance, not included as related party since March 18, 2010
Shinyoptics Corp. (Shinyoptics)	Equity method investee of the Company, not included as related party since October 1, 2010
Hangzhou Crystal Display Technology Co., Ltd. (Crystal)	Equity method investee of the Company, not included as related party since May 2011

CMO, Innolux Display Corporation, and TPO Displays Corporation agreed to conduct a merger of the three (1) companies. The merger transaction was completed on March 18, 2010. Innolux is the surviving entity following the merger and is renamed Chimei Innolux Corporation, or CMI.

(2) The entities are the subsidiary of CMO before March 18, 2010.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

## (b) Significant transactions with related parties

## (i) Revenues and accounts receivable

Revenues from related parties are summarized as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
CMO- NingBo	\$230,299	167,255	123,888
CMI	-	56,770	55,629
CMO- NanHai	86,612	51,821	41,241
Chi Hsin- NingBo	23,789	19,730	16,806
CMO	101,569	15,602	-
CME- NingBo	-	8,592	18,889
Others (individually below 5%)	5,037	18,854	1,780
	\$447,306	338,624	258,233

A breakdown by product type for sales to CMO/CMI and its affiliates is summarized as follows:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Display driver for large-size applications	\$417,099	297,146	210,137
Display driver for consumer electronics applications	25,542	27,189	29,316
Display driver for mobile handsets	1,487	10,170	14,454
Others	1,117	1,090	4,249



\$445,245 335,595 258,156

The sales prices CMO/CMI and its affiliates receive are comparable to those offered to unrelated third parties.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The related accounts receivable resulting from the above sales as of December 31, 2010 and 2011, were as follows:

	December 31,	
	2010	2011
	(in thousands)	
CMO- NingBo	\$39,793	33,981
CMI	27,275	17,690
CMO- NanHai	16,305	17,019
Chi Hsin- NingBo	6,474	4,038
CME- NingBo	4,823	6,629
Others ((individually below 5%))	1,432	559
	96,102	79,916
Allowance for sales returns and discounts	(138 )	(83 )
	\$95,964	79,833

The credit terms granted to CMO/CMI and its affiliates ranged from 90 days to 120 days, and the credit terms granted to other related parties ranged from 45 days to 60 days. The credit terms offered to unrelated third parties ranged from 30 days to 150 days.

**(ii) Property transactions**

In 2010, the Company purchased equipment amounting to \$71 thousand from Fulintec, respectively. The purchase transaction in 2010 had been full paid as of December 31, 2010.

**(iii) Lease**

The Company entered into several lease contracts with CMO, CMI, CMLC, CMLC-NingBo, CMLC-Foshan and CMO-NanHai for leasing office space, facilities and inventory locations. For the years ended December 31, 2009, 2010 and 2011, the related rent and utility expenses resulting from the aforementioned transactions amounted to \$700 thousand, \$1,119 thousand and \$705 thousand, respectively, and were recorded as cost of revenue and operating expenses in the accompanying consolidated statements of income. As of December 31, 2010 and 2011, the related payables resulting from the aforementioned transactions amounted to \$362 thousand and \$326 thousand, respectively, and were recorded as other accrued expenses in the accompanying consolidated balance sheets.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

As of December 31, 2011, future minimum lease payments under non-cancelable operating leases with related parties are as follows:

Duration	Amount (in thousands)
January 1, 2012~December 31, 2012	\$ 192
January 1, 2013~December 31, 2013	191
January 1, 2014~December 31, 2014	179
January 1, 2015~December 31, 2015	179
January 1, 2016~December 31, 2016	179
After January 1, 2017	1,311
	\$ 2,231

**(iv) Others**

In 2009, 2010 and 2011, the Company purchased consumable and miscellaneous items amounting to \$345 thousand, \$449 thousand and \$348 thousand, respectively, from CMO, CMI, CMC, Chi Lin Tech, NEXGEN, CMEL, Chi Hsin, Contrel, Fulintec and LDC, which were charged to cost of revenues and operating expenses. As of December 31, 2010 and 2011, the related payables resulting from the aforementioned transactions were nil and \$9 thousand, respectively.

In 2009 and 2010, Chi Lin Tech provided IC bonding service on prototype panels for the Company's research activities for a fee of \$43 thousand and \$12 thousand, respectively, which was charged to research and development expense. As of December 31, 2010, the related process fee payables resulting from the aforementioned transactions had been full paid.

**Note 20. Commitments and Contingencies**

(a) As of December 31, 2010, and 2011 the Company had entered into several contracts for the acquisition of equipment and computer software. Total contract prices amounted to \$8,825 thousand and \$8,207 thousand, respectively. As of December 31, 2010 and 2011, the remaining commitments were \$7,715 thousand and \$2,387 thousand, respectively.

(b) The Company leases its office and buildings pursuant to operating lease arrangements with unrelated third parties. The lease arrangement will expire gradually from 2012 to 2016. As of December 31, 2010 and 2011, deposits paid amounted to \$535 thousand and \$520 thousand, respectively, and were recorded as refundable deposit in the accompanying consolidated balance sheets.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

As of December 31, 2011, future minimum lease payments under noncancelable operating leases are as follows:

Duration	Amount (in thousands)
January 1, 2012~December 31, 2012	\$ 1,111
January 1, 2013~December 31, 2013	663
January 1, 2014~December 31, 2014	413
January 1, 2015~December 31, 2015	21
January 1, 2016~December 31, 2016	1
	\$ 2,209

Rental expense for operating leases with unrelated third parties amounted to \$1,149 thousand, \$1,229 thousand and \$1,223 thousand in 2009, 2010 and 2011, respectively.

The Company entered into several sales agent agreements, based on these agreements, the Company shall pay (c) commissions at the rates ranging from 0.5% to 5% of the sales to customers in the specific territory or referred by agents as stipulated in these agreements.

In December 2011, the Company entered into a license agreement for the use of Crosstalk relevant technology for (d) product development. In accordance with the agreement, the Company was required to pay an initial license fee based on the progress of the project development and a royalty based on shipments. In 2011, no royalty was paid.

The company has entered into two agreements to provide donations for laboratories with two top local universities (e) in Taiwan. The total donation amounts based on the modified agreements amounted to NT\$55.4 million (\$1.7 million). As of December 31, 2011, the company had paid all the donations.

(f)

The Company from time to time is subject to claims regarding the proprietary use of certain technologies. Currently, management is not aware of any such claims that it believes could have a material adverse effect on the Company's financial position or results of operations.

Since Himax Taiwan is not a listed company, it will depend on Himax Technologies, Inc. to meet its equity financing requirements in the future. Any capital contribution by Himax Technologies, Inc. to Himax Taiwan may (g) require the approval of the relevant ROC authorities. The Company may not be able to obtain any such approval in the future in a timely manner, or at all. If Himax Taiwan is unable to receive the equity financing it requires, its ability to grow and fund its operations may be materially and adversely affected.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

The Company has entered into several wafer fabrication or assembly and testing service arrangements with service providers. The Company may be obligated to make payments for purchase orders entered into pursuant to these arrangements. Contractual obligations resulted from above arrangements approximate \$106,419 thousand and \$77,434 thousand as of December 31, 2010 and 2011, respectively.

As of December 31, 2010 and 2011, Himax Display owned a 15.41% equity interest in Spatial Photonics, Inc, which is accounted for using the cost method (see Note 9). On October 27, 2011, Himax Display exercised an option to acquire all of the remaining outstanding shares of capital stock of Spatial Photonics, Inc. in exchange for 7.37% of the ordinary shares of Himax Display, calculated on a fully diluted basis, in accordance with various milestone events. However, the acquisition of Spatial Photonics, Inc. is still subject to the examination of and approval from the Investment Commission of the Ministry of Economic Affairs of the ROC. If and when such approval is obtained, the Company will account for this acquisition of additional shares under the purchase method and Spatial Photonics will become a wholly-owned subsidiary of Himax Display.

The Company is involved in various claims arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

**Note 21. Segment, Product and Geographic Information**

	Year Ended December 31, 2009		
	Driver IC	Non-driver products	Consolidated Total
	(in thousands)		
Segment revenues	\$646,121	46,260	692,381
Segment profit (loss)	\$71,035	(27,498)	43,537
Non operating income, net			188
Consolidated earnings before income taxes			\$ 43,725
Significant noncash item:			
Share based compensation	\$7,182	1,371	8,553



Depreciation and amortization	\$ 10,110	3,685	13,795
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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

	Year Ended December 31, 2010		
	Driver IC	Non-driver products	Consolidated Total
	(in thousands)		
Segment revenues	\$590,057	52,635	642,692
Segment profit (loss)	\$54,815	(19,457 )	35,358
Non operating loss, net			(64 )
Earnings before income taxes			\$ 35,294
Significant noncash item:			
Share based compensation	\$5,007	1,304	6,311
Depreciation and amortization	\$10,074	3,552	13,626

	Year Ended December 31, 2011		
	Driver IC	Non-driver products	Consolidated Total
	(in thousands)		
Segment revenues	\$552,456	80,565	633,021
Segment profit (loss)	\$38,401	(21,793 )	16,608
Non operating income, net			200
Earnings before income taxes			\$ 16,808
Significant noncash item:			
Share based compensation	\$2,820	1,370	4,190
Depreciation and amortization	\$7,849	4,946	12,795



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011**

Revenues from the Company's major product lines are summarized as follow:

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Display drivers for large-size applications	\$493,513	366,492	270,372
Display drivers for mobile handsets applications	69,081	119,623	169,248
Display drivers for consumer electronics applications	83,527	103,942	112,836
Others	46,260	52,635	80,565
	\$692,381	642,692	633,021

The following tables summarize information pertaining to the Company's revenues from customers in different geographic region (based on customer's headquarter location):

	Year Ended December 31,		
	2009	2010	2011
	(in thousands)		
Taiwan	\$548,384	492,687	395,228
China	86,451	112,845	209,216
Other Asia Pacific (Korea and Japan)	57,414	37,121	27,738
Europe (Europe and America)	132	39	839
	\$692,381	642,692	633,021

The carrying values of the Company's tangible long-lived assets are located in the following countries:

December 31,

2010      2011  
 (in thousands)

Taiwan	\$46,336	56,185
China	983	822
U.S.	223	132
Korea	19	11
	\$47,561	57,150

For the years ended December 31, 2009, 2010 and 2011, revenues from a significant customer, CMO/CMI and its affiliates, a related party, which representing 10% or more of total revenue are \$445,245 thousand, \$335,595 thousand, and \$258,156 thousand, respectively.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable for the respective periods, is summarized as follows:

	December 31,	
	2010	2011
	(in thousands)	
CMI and its affiliates, a related party	\$95,854	79,916
SVA-NEC	16,727	15,186
	\$112,581	95,102

As of December 31, 2010 and 2011, allowance for doubtful accounts, sales returns and discounts for those accounts receivable was \$16,865 thousand and \$15,269 thousand, respectively.

Note 22. Himax Technologies, Inc. (the Parent Company only)

As a holding company, dividends received from Himax Technologies, Inc.'s subsidiaries in Taiwan, if any, will be subjected to withholding tax under ROC law as well as statutory and other legal restrictions.

The condensed separate financial information of Himax Technologies, Inc. is presented as follows:

**Condensed Balance Sheets**

December 31,

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	2010	2011
	(in thousands)	
Cash	\$375	584
Other current assets	356	1,146
Investment in non-marketable securities	1,600	1,600
Investments in subsidiaries	612,703	628,528
Total assets	\$615,034	631,858
Current liabilities	\$2,156	3,921
Short-term debt	44,000	65,200
Debt borrowing from a subsidiary	163,000	169,300
Total equity	405,878	393,437
Total liabilities and equity	\$615,034	631,858

Himax Technologies, Inc. had no guarantees as of December 31, 2010 and 2011.

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2009, 2010 and 2011****Condensed Statements of Income**

	Year ended December 31,		
	2009	2010	2011
	(in thousands)		
Revenues	\$-	-	-
Costs and expenses	(1,080 )	(1,210 )	(548 )
Operating loss	(1,080 )	(1,210 )	(548 )
Equity in earnings from subsidiaries	40,834	36,427	13,433
Other non-operating loss	(104 )	(2,010 )	(2,179 )
Earnings before income taxes	39,650	33,207	10,706
Income taxes	-	1	-
Net Income	\$39,650	33,206	10,706

**Condensed Statements of Cash Flows**

	Year ended December 31,		
	2009	2010	2011
	(in thousands)		
Cash flows from operating activities:			
Net income	\$39,650	33,206	10,706
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share-based compensation expense	24	-	-
Equity in earnings from subsidiaries	(40,834)	(36,427 )	(13,433 )
Changes in operating assets and liabilities:			
Other current assets	(826 )	1,543	(790 )
Other accrued expenses and other current liabilities	654	(2,542 )	1,767
Net cash used in operating activities	(1,332 )	(4,220 )	(1,750 )
Net cash used in investing activities	(11,400)	-	-



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Cash flows from financing activities:			
Distribution of cash dividends	(55,496)	(44,097 )	(21,224 )
Proceeds from borrowing of short-term debt	80,000	204,000	271,200
Repayment of short-term debt	(80,000)	(160,000)	(250,000)
Proceeds from issue of RSUs from a subsidiary	6,598	4,370	1,634
Purchase of subsidiary shares from noncontrolling interests	-	-	(1,324 )
Proceeds from debt from a subsidiary	95,400	11,000	6,300
Acquisitions of ordinary shares for retirement	(36,596)	(10,755 )	(4,627 )
Net cash provided by financing activities	9,906	4,518	1,959
Net increase (decrease) in cash	(2,826 )	298	209
Cash at beginning of year	2,903	77	375
Cash at end of year	\$77	375	584
Supplemental disclosures of cash flow information:			
Interest paid during the year	\$3	156	353
Income taxes paid during the year	\$-	1	-

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**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2009, 2010 and 2011**

Note 23. Subsequent Event

From January 1, 2012 to April 25, 2012, Himax Technologies, Inc. repurchased 4,632,752 ADSs (representing 9,265,504 ordinary shares) from the open market for total cash consideration of \$6,801 thousand. Since the inception of the buyback program, Himax Technologies, Inc. has repurchased \$11.4 million or 8,399,962 ADSs (representing 16,799,924 ordinary shares or 4.7% of the issued and previously outstanding ordinary shares) in the open market at an average price of US\$1.36 per ADS as of April 25, 2012.

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