

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

FORM 20-F

(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 1934
For the fiscal year ended December 31, 2010
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)

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(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
Ordinary Shares, par value \$0.3 per ordinary share	The Nasdaq Global Select Market Inc.*

* 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. 353,842,764 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 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:

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

TABLE OF CONTENTS

	<u>Page</u>
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	1
CERTAIN CONVENTIONS	1
PART I	3
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	3
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
ITEM 3. KEY INFORMATION	3
3.A. Selected Financial Data	3
3.B. Capitalization and Indebtedness	5
3.C. Reason for the Offer and Use of Proceeds	5
3.D. Risk Factors	5
ITEM 4. INFORMATION ON THE COMPANY	28
4.A. History and Development of the Company	28
4.B. Business Overview	29
4.C. Organizational Structure	49
4.D. Property, Plants and Equipment	52
ITEM 4A. UNRESOLVED STAFF COMMENTS	52
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	52
5.A. Operating Results	52
5.B. Liquidity and Capital Resources	67
5.C. Research and Development	68
5.D. Trend Information	68
5.E. Off-Balance Sheet Arrangements	69
5.F. Tabular Disclosure of Contractual Obligations	69
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	70
6.A. Directors and Senior Management	70
6.B. Compensation of Directors and Executive Officers	72
6.C. Board Practices	72
6.D. Employees	74
6.E. Share Ownership	77
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	77
7.A. Major Shareholders	77
7.B. Related Party Transactions	79
7.C. Interests of Experts and Counsel	80
ITEM 8. FINANCIAL INFORMATION	80
8.A. Consolidated Statements and Other Financial Information	80
8.B. Significant Changes	81
ITEM 9. THE OFFER AND LISTING	82
9.A. Offer and Listing Details	82
9.B. Plan of Distribution	82
9.C. Markets	82
9.D. Selling Shareholders	82
9.E. Dilution	82
9.F. Expenses of the Issue	83
ITEM 10. ADDITIONAL INFORMATION	83
10.A. Share Capital	83
10.B. Memorandum and Articles of Association	83
10.C. Material Contracts	83
10.D. Exchange Controls	83
10.E. Taxation	84
10.F. Dividends and Paying Agents	86
10.G. Statement by Experts	86
10.H. Documents on Display	87

10.I. Subsidiary Information	87
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	87
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	87
12.A. Debt Securities	87
12.B. Warrants and Rights	87
12.C. Other Securities	87
12.D. American Depositary Shares	87
PART II	89
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	89
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	89
ITEM 15. CONTROLS AND PROCEDURES	89
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	91
ITEM 16B. CODE OF ETHICS	91
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	91
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	92
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	92
ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	92
ITEM 16G. CORPORATE GOVERNANCE	93
PART III	93
ITEM 17. FINANCIAL STATEMENTS	93
ITEM 18. FINANCIAL STATEMENTS	93
ITEM 19. EXHIBITS	94

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Although these forward-looking statements, which may include statements regarding our future results of operations, financial condition, or business prospects, are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on these forward-looking statements, which apply only as of the date of this annual report. The words “anticipate,” “believe,” “expect,” “intend,” “plan,” “estimate” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Our actual results of operations, financial condition or business prospects may differ materially from those expressed or implied in these forward-looking statements for a variety of reasons, including, among other things and not limited to, our anticipated growth strategies, our and our customers’ future business developments, results of operations and financial condition, our ability to develop new products, the future growth and pricing trend of the display driver markets, the future growth of end-use applications that use flat panel displays, particularly TFT-LCD panels, development of alternative flat panel display technologies, market acceptance and competitiveness of the driver and non-driver products developed by us, our ability to protect intellectual property, changes in customer relations and preference, shortage in supply of key components, our ability to collect accounts receivable and manage inventory, changes in economic and financial market conditions, and other factors. For a discussion of these risks and other factors, please see “Item 3.D. Key Information—Risk Factors.”

CERTAIN CONVENTIONS

Unless otherwise indicated, all translations from U.S. dollars to NT dollars in this annual report were made at a rate of \$1.00 to NT\$29.14, the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010. No representation is made that the NT dollar amounts referred to herein could have been or could be converted into U.S. dollars at any particular rate or at all. On May 13, 2011, the noon buying rate was \$1.00 to NT\$28.64. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Unless otherwise indicated, in this annual report,

- the terms “we,” “us,” “our company,” “our,” and “Himax” refer to Himax Technologies, Inc., its predecessor entities and subsidiaries;
- the term “Himax Taiwan” refers to Himax Technologies Limited, our wholly owned subsidiary in Taiwan and our predecessor;
- “shares” or “ordinary shares” refers to our ordinary shares, par value \$0.3 per share;
- “RSUs” refers to restricted share units;
- “ADSs” refers to our American depositary shares, each of which represents two ordinary shares;
- “ADRs” refers to the American depositary receipts that evidence our ADSs;
- “TDRs” refers to our proposed Taiwan depositary receipts to be listed on the Taiwan Stock Exchange upon the successful completion of our Taiwan listing plan;
- “ROC” or “Taiwan” refers to the island of Taiwan and other areas under the effective control of the Republic of China;
- “PRC” or “China” for purposes of this annual report refers to the People’s Republic of China, excluding Taiwan and the special administrative regions of Hong Kong and Macau;
- “AMOLED” refers to active matrix organic light-emitting diode;
- “CMOS” refers to complementary metal oxide semiconductor;

- “IC” refers to integrated circuit;
- “LCOS” refers to liquid crystal on silicon;
- “LED” refers to light-emitting diode;
- “LTPS” refers to low temperature poly silicon;
- “OLED” refers to organic light-emitting diode;
- “TFT-LCD” refers to amorphous silicon thin film transistor liquid crystal display, or “a-Si TFT-LCD;”
- “processed tape” refers to polyimide tape plated with copper foil that has a circuit formed within it, which is used in tape-automated bonding packaging;
- “semiconductor manufacturing service providers” refers to third-party wafer fabrication foundries, gold bumping houses and assembly and testing houses;
- “large-sized panels” refers to panels that are typically above ten inches in diagonal measurement;
- “small and medium-sized panels” refers to panels that are typically around ten inches or less in diagonal measurement;
- all references to “New Taiwan dollars,” “NT dollars” and “NT\$” are to the legal currency of the ROC; and
- all references to “dollars,” “U.S. dollars” and “\$” are to the legal currency of the United States.

On August 10, 2009, we effected: (i) a stock split in the form of a stock dividend of 5,999 ordinary shares for each ordinary share held by shareholders of record, followed by a consolidation of every 3,000 ordinary shares into one ordinary share; (ii) a change of the par value of our ordinary shares from \$0.0001 each to \$0.3 each; and (iii) a change in our ADS ratio from one ADS representing one ordinary share to one ADS representing two ordinary shares. See “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders” for more information. Unless otherwise indicated, all shares, per share and share equity data in this annual report have been retroactively adjusted to reflect the effect of the stock split and the change in par value for all periods presented.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The selected consolidated statement of income data and selected consolidated cash flow data for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated balance sheet data as of December 31, 2009 and 2010 are derived from our audited consolidated financial statements included herein, which were prepared in accordance with U.S. GAAP. The selected consolidated statement of income data and selected consolidated cash flow data for the years ended December 31, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2006, 2007 and 2008 are derived from our audited consolidated financial statements that have not been included herein and were prepared in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes to those statements included herein.

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands, except per share data)				
Consolidated Statement of Income Data:					
Revenues from third parties, net	\$ 329,886	\$ 371,267	\$ 312,336	\$ 245,075	\$ 304,068
Revenues from related parties, net	414,632	546,944	520,463	447,306	338,624
Costs and expenses ⁽¹⁾ :					
Cost of revenues	601,565	716,163	628,693	550,556	507,647
Research and development	60,655	73,906	87,574	71,364	76,426
General and administrative	9,762	14,903	19,353	16,346	18,770
(Recovery of) bad debt expense	187	-	25,305	218	(8,788)
Sales and marketing	6,783	9,334	11,692	10,360	13,279
Operating income	<u>\$ 65,566</u>	<u>\$ 103,905</u>	<u>\$ 60,182</u>	<u>\$ 43,537</u>	<u>\$ 35,358</u>
Net income ⁽²⁾	<u>\$ 74,953</u>	<u>\$ 111,455</u>	<u>\$ 72,724</u>	<u>\$ 35,810</u>	<u>\$ 29,066</u>
Net income attributable to Himax stockholders	<u>\$ 75,190</u>	<u>\$ 112,596</u>	<u>\$ 76,381</u>	<u>\$ 39,650</u>	<u>\$ 33,206</u>
Earnings per ordinary share attributable to Himax stockholders⁽²⁾:					
Basic	\$ 0.20	\$ 0.29	\$ 0.20	\$ 0.11	\$ 0.09
Diluted	\$ 0.19	\$ 0.29	\$ 0.20	\$ 0.11	\$ 0.09
Earnings per ADS attributable to Himax stockholders:					
Basic	\$ 0.39	\$ 0.57	\$ 0.40	\$ 0.21	\$ 0.19
Diluted	\$ 0.39	\$ 0.57	\$ 0.40	\$ 0.21	\$ 0.19
Weighted-average number of ordinary shares used in earnings per share computation:					
Basic	384,950	393,725	383,229	369,652	355,037

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands, except per share data)				
Diluted	390,180	395,043	383,753	370,229	355,690
Cash dividends declared per ordinary share ⁽³⁾	\$ -	\$ 0.100	\$ 0.175	\$ 0.150	\$ 0.125
Cash dividends declared per ADS	\$ -	\$ 0.200	\$ 0.350	\$ 0.300	\$ 0.250

Note: (1) The amount of share-based compensation included in applicable costs and expenses categories is summarized as follows:

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
Cost of revenues	\$ 275	\$ 422	\$ 435	\$ 264	\$ 240
Research and development	11,806	15,393	15,861	10,936	8,803
General and administrative	1,444	2,182	2,813	1,959	1,525
Sales and marketing	1,625	2,324	2,691	1,902	1,613
Total	\$ 15,150	\$ 20,321	\$ 21,800	\$ 15,061	\$ 12,181

Of the \$20.3 million, \$21.8 million, \$15.1 million and \$12.2 million in share-based compensation in 2007, 2008, 2009 and 2010, \$14.4 million, \$12.7 million, \$6.5 million and \$5.9 million were settled in cash, respectively.

- (2) Under the ROC Statute for Upgrading Industries, we are exempt from income taxes for income attributable to expanded production capacity or newly developed technologies. The effect of such tax exemption on our historical results was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$16.7 million, \$0.04 and \$0.04, respectively, for the year ended December 31, 2006, \$27.1 million, \$0.07 and \$0.07, respectively, for the year ended December 31, 2007, \$25.2 million, \$0.07 and \$0.07, respectively, for the year ended December 31, 2008, \$9.4 million, \$0.03 and \$0.03, respectively, for the year ended December 31, 2009, and \$3.6 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2010. A portion of these tax exemptions expired or will expire on March 31, 2009, December 31, 2010, December 31, 2012 and December 31, 2013.
- (3) The above cash dividends should not be considered representative of the dividends that would be paid in any future periods or our dividend policy. See "Item 8.A.8. Financial Information—Dividends and Dividend Policy" for more information on our dividends and our dividend policy.

	As of December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 109,753	\$ 94,780	\$ 135,200	\$ 110,924	\$ 96,842
Accounts receivable, net	112,767	88,682	51,029	64,496	80,212
Accounts receivable from related parties, net	116,850	194,902	104,477	138,172	95,964
Inventories	101,341	116,550	96,921	67,768	117,988
Total current assets	466,715	538,272	434,650	423,797	485,924
Total assets	518,794	652,762	565,548	550,448	619,620
Accounts payable	120,407	147,221	53,720	88,079	115,922
Total current liabilities	153,279	185,048	90,143	120,651	205,748
Total liabilities	153,471	190,364	95,542	126,376	212,644
Ordinary shares	116,160	115,188	114,072	107,404	106,153
Total equity	365,323	462,398	470,006	424,072	406,976

	Year Ended December 31,				
	2006	2007	2008 (in thousands)	2009	2010
Consolidated Cash Flow Data:					
Net cash provided by operating activities	\$ 29,696	\$ 77,162	\$ 136,500	\$ 73,630	\$ 57,631
Net cash used in investing activities	(9,296)	(25,286)	(21,810)	(7,541)	(75,099)
Net cash provided by (used in) financing activities	82,255	(66,974)	(74,304)	(90,779)	3,305

Exchange Rate Information

The following table sets forth the average, high, low and period-end noon buying rates between NT dollars and U.S. dollars for the periods indicated:

Period	Noon Buying Rate			
	Average ⁽¹⁾	High	Low	Period-end
	(NT dollars per U.S. dollar)			
2006	32.49	33.31	31.28	32.59
2007	32.82	33.41	32.26	32.43
2008	31.51	33.55	29.99	32.76
2009	32.96	35.21	31.95	31.95
2010	31.50	32.43	29.14	29.14
November	30.32	30.52	30.12	30.47
December	29.90	30.37	29.14	29.14
2011				
January	29.11	29.36	28.98	29.03
February	29.28	29.76	28.78	29.74
March	29.49	29.63	29.35	29.40
April	28.98	29.31	28.67	28.67
May (through May 13)	28.59	28.67	28.50	28.64

Source: Federal Reserve Bank of New York.

Note: (1) Annual averages are calculated by averaging month-end rates for the relevant year. Monthly averages are calculated by averaging daily rates for the relevant period.

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reason for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Risks Relating to Our Financial Condition and Business

We generate a substantial majority of our revenues from Chimei Innolux Corporation, which is the surviving entity following the merger of three of our customers. Any loss of or a significant reduction in Chimei Innolux Corporation's sales could materially and adversely affect our operating results.

Chimei Innolux Corporation, or Chimei Innolux, is our key customer. Chimei Innolux, formally known as Innolux Display Corporation, or Innolux, underwent a merger with Chi Mei Optoelectronics Corp., or CMO, and TPO Displays Corporation, or TPO, in March 2010, which have all been our customers. In 2010, Chimei Innolux, together with its affiliates, combined with Innolux and TPO before the merger, accounted for approximately 52.8% of our revenues. As over 50% of our revenues have been generated from Chimei Innolux, we expect our results of

operations and financial condition to continue to be significantly linked to the success and purchase policy of Chimei Innolux. Chimei Innolux has been adversely affected by the impact of the global economic downturn in recent years. Any loss of or a sharp reduction in Chimei Innolux's sales could have a significant negative impact on our business and results of operations. In 2010, our sales of large-sized panels, for which Chimei Innolux is our major customer, declined by approximately 25.7% primarily due to Chimei Innolux's change of purchase policy to diversify its display driver supply base. We cannot assure you that the purchase policy of Chimei Innolux will not change further to reduce our sales in the future. In addition, if Chimei Innolux seeks lower prices from us, our business and financial results could be materially and adversely affected. Moreover, our relationship with Chimei Innolux may not be as close as our prior relationship with CMO because none of our executive officers hold a director or officer position at Chimei Innolux after the merger. Our sales to Chimei Innolux are made pursuant to standard purchase orders rather than long-term contracts. Therefore, Chimei Innolux may cancel or reduce orders more readily than if we had long-term purchase commitments from it. In the event of a cancellation, postponement, or reduction of an order, we would likely not be able to reduce operating expenses sufficiently so as to minimize the impact of the lost revenues. Alternatively, we may have excess inventory that we cannot sell, which would harm our operating results. We expect our reliance on sales to Chimei Innolux to continue in the foreseeable future. Therefore, our operating results will likely continue to depend on sales to Chimei Innolux, as well as on the ability of Chimei Innolux to sell products that incorporate our products.

Our suppliers may have increasing bargaining power as a result of industry consolidation, which could result in an increase in our average unit cost and a decrease in our profit margin.

There has been an increased level of industry consolidation among our suppliers in recent years. In January 2010, Chartered Semiconductor Manufacturing Ltd., one of our foundry service providers, merged with Globalfoundries, one of the world's largest semiconductor foundries. In April 2010, Chipbond Technology Corporation, or Chipbond, merged with International Semiconductor Technology Ltd., or IST, which have both been among our principal providers of gold bumping, assembly and testing and chip probe testing services. Such merger and acquisition activities will likely increase the size and market power of the relevant suppliers and reduce the number of suppliers we could use. In addition, Siliconware Precision Industries Co., Ltd. closed its gold bumping manufacturing service in July 2010, which has further reduced the number of suppliers for gold bumping service that we could use. Therefore, suppliers could be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. Moreover, as gold is a crucial raw material in the gold bumping process, the increasing price of gold could result in an increase in our average unit cost and a decrease in our profit margin. If we are unable to transfer any increase in average unit cost to our customers by selling at higher prices, our gross margin would decrease and our results of operations could be adversely affected.

The global economic downturn and financial crisis could negatively affect our business, results of operations and financial condition.

The global economic downturn and financial crisis that have been affecting global business, banking and financial sectors in recent years have also been affecting the semiconductor market. Our customers have reduced or delayed purchases of our products and may continue to alter their purchasing activities in response to economic uncertainty, weak consumer spending, concern about the stability of markets and lack of credit, among other factors. In addition, there could be a number of knock-on effects from such turmoil on our business, including insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of our products or customer insolvencies, and other counterparty failures. Current uncertainty in global economic conditions also poses a risk to the overall economy that could impact our ability to manage commercial relationships with our customers and suppliers. Our revenues are susceptible to unexpected changes in global market conditions. If the severe global economic conditions continue or worsen, our results of operations and financial condition may be materially and adversely affected.

We derive substantially all of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclicity and price fluctuations could negatively impact our business or results of operations.

In 2009 and 2010, 93.3% and 91.8% of our revenues, respectively, were attributable to display drivers that were incorporated into TFT-LCD panels. We expect to continue to substantially depend on sales to the TFT-LCD panel industry for the foreseeable future. The TFT-LCD panel industry is intensely competitive and is vulnerable to

cyclical market conditions. The average selling prices of TFT-LCD panels generally decline with time as a result of, among other factors, capacity ramp-up, technological advancements and cost reduction. The average selling prices of TFT-LCD panels could further decline for numerous reasons, including but not limited to the following:

- lower-than-expected demand for end-use products that incorporate TFT-LCD panels;
- a surge in manufacturing capacity due to the ramping up of new fabrication facilities and/or improvements in production yields; and
- manufacturers operating at high levels of capacity utilization in order to reduce fixed costs per panel.

The TFT-LCD panel industry is volatile and difficult to predict. Beginning in the second half of 2008, as a result of the severe economic downturn, the TFT-LCD panel industry suffered from an over-supply and a decrease in the average selling price of TFT-LCD panels. Such environment continued as we entered 2009, resulting in significant downward pricing pressure on our products. There was a rebound in demand for TFT-LCD panels in the second quarter of 2009, but the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. In the first half of 2010, due to rush orders from customers, supply of display drivers became very tight, especially for wafer foundry and processed tape. TFT-LCD panel manufacturers began to significantly increase their orders for certain components for TFT-LCD panels because of concerns about component shortage. As a result, the TFT-LCD panel industry suffered again from an over-supply in the second half of 2010 as the end demand did not pick up as expected, which negatively affected our sales to the TFT-LCD panel industry. Moreover, the 9.0 magnitude earthquake and tsunami in Japan in March 2011 could materially and adversely impact the supply chain for the TFT-LCD industry. Japan has played an important role in supplying chemicals, raw materials, semiconductors and other products to both the TFT-LCD panel industry and the semiconductor industry. Any shortage of any materials or components for our products or our customers' products could reduce our sales or decrease demand for our products.

In addition, the merger of certain of our major customers, including CMO, Innolux and TPO, could result in an increase in their bargaining power and therefore subject us to additional downward pricing pressure. We cannot assure you that in such periods in which we experience significant downward pricing pressure, we could sufficiently reduce costs to completely offset the loss of revenues. In addition, a severe and prolonged industry downturn could also result in higher risks in relation to the collectability of our accounts receivable, the marketability and valuation of our inventories, the impairment of our tangible and intangible assets, and the stability of our supply chain. As a result, the cyclical nature of the TFT-LCD panel industry could adversely affect our revenues, cost of revenues and results of operations.

The concentration of our accounts receivable and the extension of payment terms for certain of our customers exposes us to increased credit risk and could harm our operating results and cash flows.

As of December 31, 2010, our accounts receivable less allowance for sales returns and discounts from Chimei Innolux and its affiliates were \$95.7 million, which represented approximately 54.3% of our total accounts receivable less allowance for doubtful accounts, sales returns and discounts. The concentration of our accounts receivable exposes us to increased credit risk. For example, in 2008, we incurred significant bad debt expense in relation to one of our largest customers Shanghai SVA-NEC Liquid Crystal Display Co. Ltd., or SVA-NEC, which represented more than 10% of our total accounts receivable outstanding as of December 31, 2008. In addition, we have at times agreed to extend the payment terms for certain of our third-party and related party customers. We may also agree to requests for the extension of payment terms 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 our customers could adversely affect our cash flow, liquidity and our operating results.

Our customers may experience a decline in profitability or may not be profitable at all, which could adversely affect our results of operations and financial condition.

The TFT-LCD panel industry is highly competitive. TFT-LCD panel manufacturers, including our customers, experience significant pressure on prices and profit margins, due largely to growing industry capacity and fluctuations in demand for TFT-LCD panels. Some TFT-LCD panel manufacturers have greater access to capital or greater production, research and development, intellectual property, marketing or other resources than our customers, who may not be able to compete successfully and sustain their market positions. In addition, our

customers' business performance may fluctuate significantly due to a number of factors, many of which are beyond their control, including:

- consumer demand and the general economic conditions;
- the cyclical nature of both the TFT-LCD industry, including fluctuations in average selling prices, and its downstream industries;
- the speed at which TFT-LCD panel manufacturers expand production capacity;
- brand companies' continued need for original equipment manufacturing services provided by TFT-LCD panel manufacturers;
- access to raw materials, components, equipment and utilities on a timely and economical basis;
- technological changes;
- the rescheduling and cancellation of large orders;
- access to funding on satisfactory terms; and
- fluctuations in the currencies of TFT-LCD panels exporting countries against the U.S. dollar.

Unfavorable changes in any of the above factors may seriously harm our customers' business, financial condition and results of operations. In such cases, our customers may seek to cut down their cost of components, including our products, since components generally account for a significant portion of the cost of TFT-LCD panels. Therefore, changes in our customers' profitability would likely affect their demand for our products and our ability to sell our products at desirable prices. For example, beginning in the middle of 2008, our customers generally experienced significant pressure on or a significant decline in prices and profit margins and therefore exerted strong downward pricing pressure on us as their supplier. Our customers continued to operate in a challenging business environment in recent years and may experience a further decline in profitability or may not be profitable at all. Moreover, the aggressive expansion plans for next generation fabs in China proposed by several TFT-LCD panel manufacturers might significantly increase the output of TFT-LCD panels if all of the plans are implemented in the next few years, which could result in decline in the average selling prices of TFT-LCD panels. In addition, the antitrust lawsuits in the U.S. and the European Union against several TFT-LCD panel manufacturers have materially and adversely affected the profitability of certain of our customers. This could adversely affect our profit margin, significantly reduce our profits and materially affect our results of operations and financial condition.

We depend on sales of display drivers used in TFT-LCD panels, and the limited potential for further growth in both the market size of display drivers and the market share of our display drivers or the absence of continued market acceptance of our display drivers could limit our growth in revenues or harm our business.

In 2009 and 2010, we derived 93.3% and 91.8% of our revenues from the sale of display drivers used for large-sized applications, mobile handset applications and consumer electronics applications, and we expect to continue to derive a substantial portion of our revenues from these or related products. As the display drivers industry and our display drivers business are relatively mature, there may be limited potential for the overall display drivers market to grow and for us to further grow our market share, which could limit our future growth in revenues. Failure to grow our unit shipments for display drivers, coupled with a general decline in the average selling prices, could adversely and materially affect our results of operations. See also “—Risks Relating to Our Industry— The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results.” We expect to continue to derive a substantial portion of our revenues from the sale of display drivers. Therefore, the continued market acceptance of our display drivers is critical to our future success. Failure to grow or maintain our revenues generated from the sales of display drivers could adversely and materially affect our results of operations and financial condition.

Our strategy of expanding our product offerings to non-driver products may not be successful.

We have devoted, and intend to continue to devote, financial and management resources to the development, manufacturing and marketing of non-driver products, including, among others, timing controllers, touch controller

ICs, TFT-LCD television and monitor chipsets, LCOS pico-projector solutions, power ICs, CMOS image sensors, and wafer level optics products.

We believe end products utilizing LCOS technology could potentially be a large market. LCOS technology, however, is at a relatively early stage of commercialization and has a relatively immature supply chain. Therefore we cannot assure you that there will be market acceptance of these LCOS products, or that our strategic alliance with 3M or Wingtech Group for LCOS mobile projectors will be successful. We also believe there are potential market opportunities for our CMOS image sensors. However, there has been a recent shortage in the supply of wafers to produce CMOS image sensors because the trend for higher resolution camera modules requires a larger amount of wafers to produce higher resolution CMOS image sensors. As we rely primarily on third-party foundries to supply wafers and we currently do not have any long-term supply arrangements with any third-party foundries, we cannot assure you that we can acquire sufficient wafer capacity to fulfill customers' orders.

Developing and commercializing each of our non-driver products requires a significant amount of management, engineering and monetary resources. For example, we have established certain in-house facilities for key manufacturing process of our non-driver products including LCOS projector solutions and wafer-level optics. Moreover, we will be subject to ramp-up expenses in the early stage of mass production of our non-driver products. Numerous uncertainties exist in developing new products and we cannot assure you that we will be able to develop our non-driver products successfully. We may underestimate the amount of capital, personnel and other resources required to develop and commercialize our non-driver products, which may affect the success of our growth strategy. In addition, if we are unsuccessful in expanding our product offerings to non-driver products, it may negatively affect our reputation and the status of our brand in our other markets. The failure or delay in the development, production or commercialization of any of our non-driver products, the occurrence of any product defects or design flaws, or the low market acceptance of or demand for either our products or the end devices using our products may adversely affect our results of operations and growth prospects.

Technological innovation may reduce the number of display drivers typically required for each panel, thereby reducing the number of display drivers we are able to sell per panel. If such a reduction in demand is not offset by the general growth of the industry, growth in our market share or an increase in our average selling prices, our revenues may decline.

Except for certain small-sized panels, multiple display drivers are typically required for each panel to function. In order to reduce costs, TFT-LCD panel manufacturers generally seek to have display drivers with higher channel counts and new panel designs to reduce the number of display drivers required for each panel. We have been developing such innovative and cost-effective display driver solutions in order to grow our market share, attract additional customers, increase our average selling prices and capture new design wins. However, we cannot assure you that we will successfully achieve these goals. If we fail to do so and the number of display drivers typically required per panel decreases thereby reducing our unit shipments, our revenues may decline. Recently, TFT-LCD panel manufacturers have developed several panel designs to reduce the usage of display drivers, including gate in panel, or GIP, amorphous silicon gate, or ASG, or simply gateless designs, which integrate the gate driver function onto the glass and eliminate the need for gate drivers, as well as dual gate and triple gate panel designs, which would largely reduce the usage of source drivers. If such designs or technologies become widely adopted, demand for our display drivers may decrease significantly, which would adversely and materially affect our results of operations.

We face numerous challenges relating to our growth.

The scope and complexity of our business has grown significantly since our inception. Our growth has placed, and will continue to place, a strain on our management, personnel, systems and resources. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressures. To successfully manage our growth, we believe we must effectively:

- hire, train, integrate, retain and manage additional qualified engineers, senior managers, sales and marketing personnel and information technology personnel;
- implement additional, and improve existing, administrative and operations systems, procedures and controls;

- expand our accounting and internal audit team, including hiring additional personnel with U.S. GAAP and internal control expertise;
- continue to expand and upgrade our design and product development capabilities;
- manage multiple relationships with semiconductor manufacturing service providers, customers, suppliers and certain other third parties; and
- continue to develop and commercialize non-driver products, including, among others, timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors and wafer level optics products.

Moreover, if our allocation of resources does not correspond with future demand for particular products, we could miss market opportunities, and our business and financial results could be materially and adversely affected. Therefore, we cannot assure you that we will be able to manage our growth effectively in the future.

Our quarterly revenues and operating results are difficult to predict, and if we do not meet quarterly financial expectations, our ADS price will likely decline.

Our quarterly revenues and operating results are difficult to predict. They have fluctuated in the past from quarter to quarter and may continue to do so in the future. Our operating results may in some quarters fall below market expectations, likely causing our ADS price to decline. Our quarterly revenues and operating results may fluctuate because of many factors, including:

- our ability to accurately forecast shipments, average selling prices, cost of revenues, operating expenses, non-operating income/loss, foreign currency exchange rates, and tax rates;
- our ability to transfer any increase in unit costs to our customers;
- our ability to accurately perform various tests, estimations and projections, including with respect to the write-down on slow or obsolete inventories, the impairment of long-lived assets, the collectibility of accounts receivable, and the realizability of deferred tax assets;
- our ability to successfully design, develop and introduce in a timely manner new or enhanced products acceptable to our customers;
- changes in the relative mix in the unit shipments of our products, which may have significantly different average selling prices and cost of revenues as a percentage of revenues;
- changes in share-based compensation;
- the loss of one or more of our key customers;
- decreases in the average selling prices of our products;
- our accumulation and write-down of inventory;
- the relative unpredictability in the volume and timing of customer orders;
- shortages of other components used in the manufacture of TFT-LCD panels;
- the risk of cancellation or deferral of customer orders in anticipation of our new products or product enhancements, or due to a reduction in demand of our customers' end product;
- changes in our payment terms with our customers and our suppliers;
- our ability to negotiate favorable prices with customers and suppliers;
- our ability to hedge foreign exchange risks;

- changes in the available capacity of semiconductor manufacturing service providers;
- the rate at which new markets emerge for new products under development;
- the evolution of industry standards and technologies;
- product obsolescence and our ability to manage product transitions;
- increase in cost of revenues due to inflation;
- our involvement in litigation or other types of disputes;
- changes in general economic conditions, especially the impact of the global financial crisis on economic growth and consumer spending and the unease in the Middle East;
- changes in our tax exemptions, transfer pricing policy and applicable income tax regulations; and
- natural disasters, particularly earthquakes and typhoons, or outbreaks of disease affecting countries where we conduct our business or where our products are manufactured, assembled or tested.

The factors listed above are difficult to foresee, and along with other factors, could seriously harm our business. We anticipate the rate of new orders may vary significantly from quarter to quarter. Our operating expenses and inventory levels are based on our expectations of future revenues, and our operating expenses are relatively fixed in the short term. Consequently, if anticipated sales and shipments in any quarter do not occur as expected, operating expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters may be negatively impacted. Any shortfall in our revenues would directly impact our business. Our operating results are volatile and difficult to predict; therefore, you should not rely on the operating results of any one quarter as indicative of our future performance. Our operating results in future quarters may fall below the expectations of securities analysts and investors. In this event, our ADS price may decline significantly.

Our close relationship with Chimei Innolux could limit our potential to do business with Chimei Innolux's competitors, which may cause us to lose opportunities to grow our business and expand our customer base.

Chimei Innolux, the successor of CMO after its merger with Innolux and TPO, is one of our largest shareholders. Chimei Innolux or, prior to the merger, CMO has been our largest customer since our inception. We expect to continue to maintain various contractual and other relationships with Chimei Innolux and its affiliates. Our close relationship with Chimei Innolux could limit our potential to do business with Chimei Innolux's competitors or other TFT-LCD panel manufacturers, who may perceive that granting business to us could benefit Chimei Innolux. Our close relationship with Chimei Innolux may result in losing business opportunities or may prevent us from taking advantage of opportunities to grow our business and expand our customer base.

An adverse change to our relationship with Chimei Innolux could have a material adverse effect on our business.

Chimei Innolux is one of our largest shareholders, beneficially owning approximately 14.4% of our outstanding shares as of March 31, 2011. Chimei Innolux is also our largest customer, which, together with its affiliates, combined with Innolux and TPO before the merger, accounted for approximately 52.8% of our revenues. Our engineers work closely with Chimei Innolux's engineers to design display drivers and other semiconductors used by Chimei Innolux and its affiliates or their customers. We have entered into various transactions with Chimei Innolux or CMO and its affiliates in the past, and we expect to continue to do so in the future. See "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions." If our relationship with Chimei Innolux deteriorates for any reason, our business could be materially and adversely affected.

The strategic relationships between certain of our competitors and their customers and the development of in-house capabilities by TFT-LCD panel manufacturers may limit our ability to expand our customer base and our growth prospects.

Certain of our competitors have established or may establish strategic or strong relationships with TFT-LCD panel manufacturers that are also our existing or potential customers. Marketing our display drivers to such TFT-

LCD panel manufacturers that have established relationships with our competitors may be difficult. Moreover, several TFT-LCD panel manufacturers have in-house design capabilities and therefore may not need to source semiconductor products from us. If our customers successfully develop in-house capabilities to design and develop semiconductors that can substitute our products, they would likely reduce or stop purchasing our products. In addition, we also face challenges in attracting new customers for our new products. To sell new products, we will likely need to target new market segments and new customers with whom we do not have current relationships, which may require different strategies and may present difficulties that we have not encountered before. Therefore, failure to broaden our customer base and attract new customers may limit our growth prospects.

We depend primarily on nine foundries to manufacture our wafers, and any failure to obtain sufficient foundry capacity or loss of any of the foundries we use could significantly delay our ability to ship our products, causing us to lose revenues and damage our customer relationships.

Access to foundry capacity is crucial to our business because we do not manufacture our own wafers, instead relying primarily on nine third-party foundries. The ability of a foundry to manufacture our semiconductor products is limited by its available capacity. Access to capacity is especially important due to the limited availability of the high-voltage CMOS process technology required for the manufacture of wafers used in display drivers. Many foundries did not expand capacity in 2009 as a result of the impact of the global financial crisis, and therefore foundry capacity has been tight since the first quarter of 2010 and is expected to remain tight in 2011, while demand for foundry capacity has picked up. Moreover, Japanese integrated device manufacturer companies may outsource their semiconductor manufacturing to foundries outside Japan. This could result in tightness in the foundry supply available to us and affect our ability to acquire sufficient capacity. As we currently do not have any long-term supply arrangements with any third-party foundries to guarantee us access to a certain level of foundry capacity, if the primary third-party foundries that we rely upon are not able to meet our required capacity, or if our business relationships with these foundries are adversely affected, we would not be able to obtain the required capacity from these foundries to meet any increasing demand for our products and would have to seek alternative foundries, which may not be available on commercially reasonable terms, or at all, or which may expose us to risks associated with qualifying new foundries, as further discussed below. Our results of operations and business prospects could be adversely affected as a result of the foregoing.

We place wafer orders on the basis of our customers' purchase orders and sales forecasts; however, any of the foundries we use can allocate capacity to other foundry customers and reduce deliveries to us on short notice. It could be that other foundry customers are larger and better financed than we are, or have supply agreements or better relationships with the foundries we use, and could induce these foundries to reallocate our capacity to them. The loss of any of the foundries we use or any shortfall in available foundry capacity could impair our ability to secure processed wafers, which could significantly delay our ability to ship our products, causing a loss of revenues and damages in our customer relationships.

The recent fluctuations in the prices of certain metals, chemicals and gasoline and the recent volatility of foreign exchange rates may have increased costs for foundries and semiconductor service providers. This increase in costs could limit their ability to continue to make the research and development investments needed to keep up with technological advances. Any increase in costs for foundries and semiconductor service providers we use could lead to an increase in our unit costs or could limit our ability to lower our unit costs. We cannot assure you that we will be able to continue to reduce our costs and maintain our profit margins.

Taiwan Semiconductor Manufacturing Company Limited, or TSMC, and Vanguard International Semiconductor Corporation, or Vanguard, historically manufactured substantially all of our wafers in the early years since our inception. In order to diversify our foundry sources, we have also used Macronix International Co., Ltd., or Macronix, Lite-on Semiconductor Corp., or Lite-on, Globalfoundries Singapore Pte., Ltd. (formerly Chartered Semiconductor Manufacturing Ltd.), or Globalfoundries Singapore, United Microelectronics Corporation, or UMC, Maxchip Electronics Corp., or Maxchip, Semiconductor Manufacturing International Corporation, or SMIC, and Shanghai Hua Hong NEC Electronics Company, Ltd., or HHNEC, to manufacture a portion of our products. As a result of outsourcing the manufacturing of our wafers, we face several significant risks, including:

- failure to secure necessary manufacturing capacity, or being able to obtain required capacity only at higher costs;
- risks of our proprietary information leaking to our competitors through the foundries we use;

- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs;
- the unavailability of, or potential delays in obtaining access to, key process technologies; and
- financial risks of certain of our foundry suppliers, including those that are owned by ailing dynamic random access memory, or DRAM, companies.

In addition, in order to manufacture our display drivers used in TFT-LCD panels, we require foundries with high-voltage manufacturing process capacity. Of the limited number of foundries that offer this capability, some are owned by integrated device manufacturers which are also our competitors. As a result, our dependence on high-voltage foundries presents the following additional risks:

- potential capacity constraints faced by the limited number of high-voltage foundries and the lack of investment in new and existing high-voltage foundries;
- difficulty in attaining consistently high manufacturing yields from high-voltage foundries;
- delay and time required (approximately one year) to qualify and ramp up production at new high voltage foundries; and
- price increases.

As a result of these risks, we may be required to use foundries with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of high-voltage foundry capacity may necessitate us making investments in foundries in order to secure capacity, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

Shortages of processed tape used in the manufacturing of our products, increased costs of manufacturing such tape, or the loss of one of our suppliers of such tape may increase our costs or limit our revenues and impair our ability to ship our products on time.

There are a limited number of companies which supply the processed tape used to manufacture our semiconductor products, and we do not have binding long-term supply arrangements with processed tape suppliers that would guarantee us access to processed tape. Therefore, from time to time, shortages of such processed tape may occur. In the first half of 2010, the supply of processed tape has been tight and it is likely that the shortage of processed tape may continue in 2011, as certain of our processed tape suppliers have plans to either close or reduce the production of processed tape. Moreover, Japan, which has been leading in the production and supply of processed tape, may be negatively affected by the earthquake and tsunami in March 2011, leading to a decrease in the production of processed tape. If any of the processed tape suppliers we rely upon experience difficulties in delivering processed tape or are unable to meet the prices, quality or services that we require, or if our business relationships with these suppliers weaken or deteriorate, we may not be able to locate alternative sources in a timely manner. Therefore, if shortages of processed tape were to occur, or if the costs of manufacturing such tape increases, we would incur additional costs or be unable to ship our products to our customers in a timely fashion, all of which could harm our business and our customer relationships and negatively impact our earnings. As a result of these risks, we may also be required to use processed tape suppliers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of processed tape may necessitate us making investments in processed tape suppliers in order to secure adequate supply, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

The loss of, or our inability to secure sufficient capacity from, any of our third-party assembly and testing houses at reasonable and competitive prices could disrupt our shipments, harm our customer relationships and reduce our sales.

Access to third-party assembly and testing capacity is critical to our business because we do not have in-house assembly and testing capabilities for commercial production and instead rely on third-party service providers. Access to these services is especially important to our business because display drivers require specialized assembly

and testing services. A limited number of third-party assembly and testing houses assemble and test substantially all of our current products. There has been an increased level of industry consolidation among our suppliers in recent years. Therefore, suppliers could be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. See also “—Our suppliers may have increasing bargaining power as a result of industry consolidation, which could result in an increase in our average unit cost and a decrease in our profit margin.” We do not have binding long-term supply arrangements with assembly and testing service providers that guarantee us access to our required capacity. If the primary assembly and testing service providers that we rely upon are not able to meet our requirements in price, quality, and service, or if our business relationships with these service providers were adversely affected, we would not be able to obtain the required capacity from such providers and would have to seek alternative providers, which may not be available on commercially reasonable terms, or at all. As a result, we do not directly control our product delivery schedules, assembly and testing costs and quality assurance and control. If any of these third-party assembly and testing houses experiences capacity constraints, financial difficulties, suffers any damage to its facilities or if there is any disruption of its assembly and testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner. Because of the amount of time we usually take to qualify assembly and testing houses, we may experience significant delays in product shipments if we are required to find alternative sources. Any problems that we may encounter with the delivery, quality or cost of our products could damage our reputation and result in a loss of customers and orders.

As a result of these risks, we may be required to use assembly and testing service providers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of assembly and testing services may necessitate us making investments in assembly and testing service providers in order to secure capacity, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

Shortages of other key components for our customers’ products could decrease demand for our products.

Shortages of components and other materials that are critical to the design and manufacture of our customers’ products may limit our sales. These components and other materials include, but are not limited to, color filters, backlight modules, polarizers, printed circuit boards and glass substrates. In the past, companies that use our products in their production have experienced delays in the availability of key components from other suppliers. For example, in 2009, some TFT-LCD panel manufacturers experienced a shortage of certain components, notably glass substrates, while demand for TFT-LCD panels rebounded in the second quarter of 2009. The supply of glass substrates, backlight modules, polarizers, power ICs, among other things, has also been tight since the first quarter of 2010. Moreover, the earthquake and tsunami in Japan in March 2011 has resulted in disruption in certain manufacturing sites and limitation on electricity, which could materially and adversely affect the production and supply of certain key components of TFT-LCD panels, such as Anisotropic Conductive Film and Triacetyl Cellulose Film. In addition, component manufacturers may not be able to increase or maintain their component supply because of labor shortage in China or otherwise, and may shut down certain of their capacity from time to time because of weak demand, which may increase the instability of timely delivery and the risk of shortage of components. Such shortages of components and other materials critical to the design and manufacture of our customers’ products may cause a slowdown in demand for our products, resulting in a decrease in our sales and adversely affecting our results of operations. In addition, as a result of uncertain demand conditions, our customers may hesitate to build inventory on hand and tend to release orders on short notice.

We rely on the services of our key personnel, and if we are unable to retain our current key personnel and hire additional personnel, our ability to design, develop and successfully market our products could be harmed.

We rely upon the continued service and performance of a relatively small number of key personnel, including certain engineering, technical and senior management personnel. In particular, our engineers and other key technical personnel are critical to our future technological and product innovations. Competition for highly skilled engineers and other key technical personnel is intense in the semiconductor industry in general and in Taiwan’s flat panel semiconductor industry in particular. Moreover, our future success depends on the expansion of our senior management team and the retention of key employees such as Jordan Wu, our president and chief executive officer; Dr. Biing-Seng Wu, our chairman; and Chih-Chung Tsai, our chief technology officer. We rely on these individuals to manage our company, develop and execute our business strategies and manage our relationships with key suppliers and customers. Any of our key employees could leave our company with little or no prior notice. They

could also leave our company to work with a competitor. In addition, we do not have “key person” life insurance policies covering any of our employees. The loss of any of our key personnel or our inability to attract or retain qualified personnel, whether engineers and others, could delay the development and introduction of new products and would have an adverse effect on our ability to sell our products as well as on our overall business and growth prospects. We may also incur increased operating expenses and be required to divert the attention of other senior executives away from their original duties to recruiting replacements for key personnel.

If we fail to forecast customer demand accurately, we may have excess or insufficient inventory, which may increase our operating costs and harm our business.

The lead time required by the semiconductor manufacturing service providers that we use to manufacture our products is typically longer than the lead time that our customers provide for delivery of our products to them. Therefore, to ensure availability of our products for our customers, we will typically ask our semiconductor manufacturing service providers to start manufacturing our products based on forecasts provided by our customers in advance of receiving their purchase orders. However, these forecasts are not binding purchase commitments, and we do not recognize revenues from these products until they are shipped to customers. Moreover, for the convenience of our customers, we may agree to ship our inventory to warehouses located near our customers, so that our products can be delivered to these customers more quickly. We may from time to time agree that title and risk of loss do not pass to our customer until the customer requests delivery of our products from such warehouses. In such cases, we will not recognize revenues from these products until the title and risk of loss have passed to our customers based on the shipping terms, which is generally when they are delivered to our customers from these warehouses. As a result, we incur inventory and manufacturing costs in advance of anticipated revenues.

The anticipated demand for our products may not materialize; therefore, manufacturing based on customer forecasts exposes us to risks of high inventory carrying costs, increased product obsolescence, and erosion of the products’ market value. For example, some of our customers might overstate their forecasts because of concerns that their semiconductor suppliers cannot deliver on their rush orders. If we overestimate demand for our display drivers or if purchase orders are cancelled or shipments delayed, we may incur excess inventory that we cannot sell, or may have to sell at low profit margins or even at a loss, which would harm our financial results. Conversely, if we underestimate demand, we may not have sufficient inventory and may lose market share and damage customer relationships, which also could harm our business. Obtaining additional supply in the face of product shortages may be costly or impossible, particularly in the short term, which could prevent us from fulfilling orders. These inventory risks are exacerbated by the high level of customization of our products, which limits our ability to sell excess inventory to other customers.

If we do not achieve additional design wins in the future, our ability to grow will be limited.

Our future success depends on our current and prospective customers’ designing our products into their products. To achieve design wins, we must design and deliver cost-effective, innovative, reliable and integrated products that are customized for our customers’ needs. Once a supplier’s products have been designed into a system, the panel manufacturer may be reluctant to change its source of components due to the significant costs and time associated with qualifying a new supplier. Accordingly, our failure to obtain additional design wins with panel manufacturers and to successfully design, develop and introduce new products and product enhancements could harm our business, financial condition and results of operations.

A design win is not a binding commitment by a customer to purchase our products and may not result in large volume orders of our products. Rather, it is a decision by a customer to use our products in the design process of that customer’s products. Customers can choose at any time to stop using our products in their designs or product development efforts. Moreover, even if our products were chosen to be incorporated into a customer’s products, our ability to generate significant revenues from that customer would depend on the commercial success of those products. Thus, a design win may not necessarily generate significant revenues if our customers’ products are not commercially successful.

Some of our semiconductor products are manufactured at only one foundry. If any foundry is unable to provide the capacity we need, does not deliver in a timely manner or the quality or pricing terms are not acceptable to us, we may experience delays in shipping our products or have to incur additional costs, which could damage our customer relationships and result in reduced revenues and higher costs and expenses.

Although we use several foundries for different semiconductor products, certain of our products are manufactured at only one of these foundries. If any one of the foundries that we use for a specific product is unable to provide us with our required capacity, does not deliver in a timely manner or the quality or pricing terms are not acceptable to us, we could experience significant delays in receiving the product being manufactured for us by that foundry or incur additional costs to obtain substitutes. Also, if any of the foundries that we use experience financial difficulties or insolvency risks due to the impact of the global economic turmoil or any company-specific reasons or otherwise, if their operations are damaged or if there is any other disruption of their foundry operations, we may not be able to qualify an alternative foundry in a timely manner. If we choose to use a new foundry or process technology for a particular semiconductor product, we believe that it will take us several quarters to qualify the new foundry or process before we can begin shipping such products. If we cannot qualify a new foundry in a timely manner, we may experience a significant interruption in our supply of the affected products, which could reduce our revenues, increase our costs and expenses and damage our customer relationships.

Our products are complex and may require modifications to resolve undetected errors or failures in order for them to function with panels at the desired specifications, which could lead to higher costs, a loss of customers or a delay in market acceptance of our products.

Our products are highly complex and may contain undetected errors or failures when first introduced or as new versions are released. If our products are delivered with errors or defects, we could incur additional development, repair or replacement costs, and our credibility and the market acceptance of our products could be harmed. Defects could also lead to liability for defective products and lawsuits against us or our customers. We have agreed to indemnify some of our customers under some circumstances against liability from defects in our products. A successful product liability claim could require us to make significant damage payments.

Our display drivers comprise part of a complex panel manufactured by our customers. Our display drivers must operate according to specifications with the other components used by our customers in the panel manufacturing process. For example, during the panel manufacturing process, our display drivers are attached to the panel glass and must interoperate with the glass efficiently. If other components fail to operate efficiently with our display drivers, we may be required to incur additional development time and costs to improve the interoperability of our display drivers with the other components.

Our highly integrated products are difficult to manufacture without defects. The existence of defects in our products could increase our costs, decrease our sales and damage our customer relationships and our reputation.

The manufacture of our products is a complex process, and it is often difficult for semiconductor foundries to manufacture our products completely without defects. Minor deviations in the manufacturing process can cause substantial decreases in yield and quality. In particular, some of our products are highly integrated and incorporate mixed analog and digital signal processing and embedded memory technology, and this complexity makes it even more difficult to manufacture without defects.

The ability to manufacture products of acceptable quality depends on both product design and manufacturing process technology. Defective products can be caused by design, defective materials or component parts, or manufacturing difficulties. Thus, quality problems can be identified only by analyzing and testing our display drivers in a system after they have been manufactured. The difficulty in identifying defects is compounded by the uniqueness of the process technology used in each of the semiconductor foundries with which we have subcontracted to manufacture our products. Difficulties in achieving defect-free products due to the increasing complexity of display drivers and the panel system surrounding them may result in an increase in our costs and expenses and delays in the availability of our products. In addition, if the foundries that we use fail to deliver products of satisfactory quality in the volume and at the price required, we will be unable to meet our customers' demand for our products or to sell those products at an acceptable profit margin, which could adversely affect our sales and margins and damage our customer relationships and our reputation.

We do not have long-term purchase commitments from our customers, which may result in significant uncertainty and volatility with respect to our revenues and could materially and adversely affect our results of operations and financial condition.

We do not have long-term purchase commitments from our customers; our sales are made on the basis of individual purchase orders. Our customers may also cancel or defer purchase orders. Our customers' purchase orders may vary significantly from period to period, and it is difficult to forecast future order quantities. In addition, changes in our customers' business may adversely affect the quantity of purchase orders that we receive. For example, if the merger of CMO, Innolux and TPO results in the discontinuation of a large number of our design-win projects or the discontinuation of those design-win projects with large sales quantities, we could be required to write off a substantial amount of inventory prepared based on forecasts provided by any of these customers. In the past, some of our customers have also significantly lowered their capacity utilization rates, reduced or canceled their orders of our products, and requested higher-than-usual price concession from us. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in prior periods. We also cannot assure you that the volume of our customers' orders will be consistent with our expectations when we plan our expenditures. Our results of operations and financial condition may thus be materially and adversely affected.

Potential conflicts of interest with Chimei Innolux may affect our sales decisions and allocations.

We have a close relationship with Chimei Innolux, the successor of CMO after its merger with Innolux and TPO in March 2010. Chimei Innolux is currently one of our largest shareholders. Chimei Innolux or, prior to the merger, CMO has also been our largest customer since our inception. In addition, Mr. Tien-Jen Lin, our director, is the Special Assistant to General Manager in Chimei Innolux. We cannot assure you that our close relationship with Chimei Innolux and the resulting potential conflicts of interest will not affect our sales decisions or allocations or that potential conflicts of interest with respect to Chimei Innolux will be resolved in our favor.

Our corporate actions are substantially controlled by officers, directors, principal shareholders and affiliated entities who may take actions that are not in, or may conflict with, our or our public shareholders' interests.

As of March 31, 2011, Jordan Wu and Dr. Biing-Seng Wu (who are brothers) beneficially owned approximately 7.2% and 19.1% of our ordinary shares, respectively, and Chimei Innolux beneficially owned approximately 14.4% of our ordinary shares. For information relating to the beneficial ownership of our ordinary shares, see "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." These shareholders, acting together, could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. Actions may be taken even if they were opposed by our other shareholders.

Assertions against us by third parties for infringement of their intellectual property rights could result in significant costs and cause our operating results to suffer.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which results in protracted and expensive litigation for many companies. We have received, and expect to continue to receive, notices of infringement of third-party intellectual property rights. We may receive claims from various industry participants alleging infringement of their patents, trade secrets or other intellectual property rights in the future. Any lawsuit resulting from such allegations could subject us to significant liability for damages and invalidate our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology or manufacturing processes that contain the allegedly infringing intellectual property;
- pay damages to the party claiming infringement;
- attempt to obtain a license for the relevant intellectual property, which may not be available on commercially reasonable terms or at all; and

- attempt to redesign those products that contain the allegedly infringing intellectual property with non-infringing intellectual property, which may not be possible.

The outcome of a dispute may result in our need to develop non-infringing technology or enter into royalty or licensing agreements. We have agreed to indemnify certain customers for certain claims of infringement arising out of the sale of our products. Any intellectual property litigation could have a material adverse effect on our business, operating results or financial condition.

Our ability to compete will be harmed if we are unable to protect our intellectual property rights adequately.

We believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely primarily on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain, copy or use information that we regard as proprietary, such as product design and manufacturing process expertise. As of March 31, 2011, we and our subsidiaries had 604 U.S. patent applications pending, 883 Taiwan patent applications pending and 484 patent applications pending in other jurisdictions, including the PRC, Japan, Korea and Europe. Our pending patent applications and any future applications may not result in issued patents or may not be sufficiently broad to protect our proprietary technologies. Moreover, policing any unauthorized use of our products is difficult and costly, and we cannot be certain that the measures which we have implemented will prevent misappropriation or unauthorized use of our technologies, particularly in foreign jurisdictions where the laws may not protect our proprietary rights as fully as the laws of the United States do. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to protect our intellectual property effectively could harm our business.

Any future class action suit or other legal actions against us may have an adverse effect on our financial condition and operating results.

We were previously subject to a class action complaint, filed in the United States District Court for the Central District of California, for alleged violations of U.S. federal securities laws. The lawsuit asserted claims against us, our Chief Executive Officer Jordan Wu, our former Chief Financial Officer Max Chan, certain of our directors, as well as CMO, for allegedly failing to disclose in our initial public offering registration statement and prospectus certain information concerning CMO's inventory level prior to our initial public offering. We have successfully settled the dispute and paid a settlement of \$1.2 million, pursuant to a settlement agreement approved by the court in September 2009. However, we may be subject to other legal actions, including potential future class action suits. The outcome of any future litigation proceedings is uncertain. Regardless of merit, litigation and other preparations undertaken to defend a legal action can be costly and may divert the attention of our management. We could also incur substantial monetary liabilities, which may have an adverse effect on our financial condition and operating results.

We may undertake acquisitions or investments to expand our business that may pose risks to our business and dilute the ownership of our existing shareholders, and we may not realize the anticipated benefits of these acquisitions or investments.

As part of our growth and product diversification strategy, we will continue to evaluate opportunities to acquire or invest in other businesses, intellectual property or technologies that would complement our current offerings, expand the breadth of markets we can address or enhance our technical capabilities. For example, in November 2010, our subsidiary, Himax Display, Inc., or Himax Display, entered into definitive agreements with Spatial Photonics, Inc., or Spatial Photonics, a Delaware corporation engaged in the business of manufacturing and production of large-sized display panels, to subscribe for certain Series D-1 Preferred Stock with an equity interest of 15.4% in Spatial Photonics. Himax Display had an option, exercisable on or before October 31, 2011, to acquire all of the remaining outstanding shares of capital stock of Spatial Photonics in exchange for certain number of common stock of Himax Display. Spatial Photonics incurred a significant loss in 2010 primarily as a result of a large amount of labor and research and development expenses but only a small amount of revenue as it is still in the product development stage. We cannot assure you that we will be able to realize the benefits we anticipate from acquiring Spatial Photonics. To the extent we exercise the option to acquire a controlling stake in Spatial Photonics and consolidate its accounts into our consolidated financial statements, if Spatial Photonics continues to incur significant expenditures and losses in the future, our financial condition and results of operations will be materially and adversely affected. Acquisitions or

investments that we have completed or potentially may make in the future, including our acquisition of Spatial Photonics, entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

- problems integrating the acquired operations, technologies or products into our existing business and products;
- diversion of management's time and attention from our core business;
- adverse effects of losses of the acquired target upon our financial condition and results of operations;
- adverse effects on existing business relationships with customers;
- the need for financial resources above our planned investment levels;
- dilution of share ownership of current shareholders under share swap transactions;
- failures in realizing anticipated synergies;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack experience;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets;
- potential expenses related to the depreciation of tangible assets and amortization of intangible assets; and
- potential impairment charges related to the goodwill acquired.

Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations. Any such acquisition or investment may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for acquisitions, the value of our ADSs and the underlying ordinary shares may be diluted. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that can, among other things, restrict us from distributing dividends.

Risks Relating to Our Industry

The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results.

The price of each semiconductor product typically declines over its product life cycle, reflecting product obsolescence, decreased demand as customers shift to more advanced products, decreased unit costs due to advanced designs or improved manufacturing yields, and increased competition as more semiconductor suppliers are able to offer similar products. We may experience substantial period-to-period fluctuations in future operating results if our average selling prices decline. We may reduce the average unit price of our products in response to competitive pricing pressures, new product introductions by us or our competitors and other factors. The TFT-LCD panel market is highly cost sensitive, which may result in declining average selling prices of the components comprising TFT-LCD panels. We expect that these factors will create downward pressure on our average selling prices and operating results. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes and corresponding production cost reductions, or if we fail to develop and introduce new products and enhancements on a timely basis, our revenues and operating results will suffer.

The semiconductor industry, in particular semiconductors used in flat panel displays, is highly competitive, and we cannot assure you that we will be able to compete successfully against our competitors.

The semiconductor industry, in particular semiconductors used in flat panel displays, is highly competitive. Increased competition may result in pricing pressure, reduced profitability and loss of market share, any of which could seriously harm our revenues and results of operations. Competition principally occurs at the design stage, where a customer evaluates alternative design solutions that require display drivers. We continually face intense competition from fabless display driver companies as well as from integrated device manufacturers. Some of our competitors have substantially greater financial and other resources than we do with which to pursue engineering, manufacturing, marketing and distribution of their products. As a result, they may be able to respond more quickly to changing customer demands or devote greater resources to the development, promotion and sales of their products than we can. Some of our competitors have manufacturing capabilities as well as in-house design operations that may give them significant advantages such as more research and development resources and the ability to attract highly skilled engineers. Furthermore, some of our competitors are affiliated with, or are subsidiaries of, our panel manufacturer customers. These relationships may also give our competitors significant advantages such as early access to product roadmaps and design-in priorities, which would allow them to respond more quickly to changing customer demands and achieve more design-wins than we can. In addition, even competitors with no such strategic associations with panel manufacturers may resort to price competition to maintain their market share, which may impose pricing pressures on us, reduce our profitability or decrease our market share. We cannot assure you that we will be able to increase or maintain our revenues and market share, or compete successfully against our current or future competitors in the semiconductor industry.

We may be adversely affected by the cyclical nature of the semiconductor industry.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The semiconductor industry has, from time to time, experienced significant downturns, often connected with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Any future downturn may reduce our revenues and result in our having excess inventory. Furthermore, any upturn in the semiconductor industry could result in increased competition for access to limited third-party foundry, assembly and testing capacity. Failure to gain access to foundry, assembly and testing capacity could impair our ability to secure the supply of products that we need, which could significantly delay our ability to ship our products, cause a loss of revenues and damage our customer relationships.

We have a lengthy and expensive design-to-mass production cycle.

The cycle time from the design stage to mass production for display drivers is long and requires the investment of significant resources with each potential customer without any guarantee of sales. Our design-to-mass production cycle typically begins with a three to twelve-month semiconductor development stage and test period followed by a three to twelve-month end product development period by customers. This fairly lengthy cycle creates the risk that we may incur significant expenses but will be unable to realize meaningful sales. Moreover, prior to mass production, customers may decide to cancel the projects or change production specifications, resulting in sudden changes in our product specifications, further causing increased production time and costs. Failure to meet such specifications may delay the launch of our products.

Our business could be materially and adversely affected if we fail to anticipate changes in evolving industry standards, fail to achieve and maintain technological leadership in our industry or fail to develop and introduce new and enhanced products.

Our products are generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or those of our customers unmarketable or obsolete and may require us to incur substantial unanticipated costs to comply with any such new standards. Likewise, the components used in the TFT-LCD panel industry are constantly changing with increased demand for improved features. Moreover, our past sales and profitability have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products in a timely fashion. If we do not anticipate these changes in technologies and rapidly develop and introduce new and innovative technologies, we

may not be able to provide advanced display semiconductors on competitive terms, and some of our customers may buy products from our competitors instead of from us. Our continued ability to adapt to such changes and anticipate future standards will be a significant factor in maintaining or improving our competitive position and our growth prospects. We cannot assure you that we will be able to anticipate evolving industry standards, successfully complete the design of our new products, have these products manufactured at acceptable manufacturing yields, or obtain significant purchase orders for these products to meet new standards or technologies. If we fail to anticipate changes in technology and to introduce new products that achieve market acceptance, our business and results of operations could be materially and adversely affected.

Risks Relating to Our Holding Company Structure

Our ability to receive dividends and other payments or funds from our subsidiaries may be restricted by commercial, statutory and legal restrictions, and thereby materially and adversely affect our ability to grow, fund investments, make acquisitions, pay dividends and otherwise fund and conduct our business.

We are a holding company and our assets consist mainly of our 100% ownership interest in Himax Taiwan. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. Nonetheless, dividends and interest on shareholder loans that we receive from our subsidiaries in Taiwan, if any, will be subject to withholding tax under ROC law. The ability of our subsidiaries to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us is restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. In addition, while we have registered with the Central Bank of the ROC (Taiwan), or the Central Bank of ROC, for outward/inward remittance that would allow our subsidiaries located in Taiwan to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us, we cannot assure you that the relevant regulations will not change and that the ability of our subsidiaries to do so will not be restricted in the future. A Taiwan company is 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 reserves). In addition, before distributing a dividend to shareholders following the end of a fiscal year, the 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.

Any limitation on dividend payments by our subsidiaries could materially and adversely affect our ability to grow, finance capital expenditures, make acquisitions, pay dividends, and otherwise fund and conduct our business.

Our ability to make further investments in Himax Taiwan may be dependent on regulatory approvals. If Himax Taiwan is unable to receive the equity financing that it requires, its ability to grow and fund its operations may be materially and adversely affected.

Since Himax Taiwan is not a listed company, it generally depends on us to meet its equity financing requirements. Any capital contribution by us to Himax Taiwan may require the approval of the relevant ROC authorities such as the Investment Commission of the Ministry of Economic Affairs of the ROC, or the ROC Investment Commission. We 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 that it requires, its ability to grow and fund its operations may be materially and adversely affected.

Political, Geographical and Economic Risks

Due to the location of our operations in Taiwan, we and many of our semiconductor manufacturing service providers, suppliers and customers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our operations, and the operations of many of our semiconductor manufacturing service providers, suppliers and customers are located in Taiwan, which is vulnerable to natural disasters, in particular, earthquakes and typhoons. Our principal foundries and assembly and testing houses upon which we have relied to manufacture substantially all of our display drivers are located in Taiwan. In 2010, 76.7% of our revenues were derived from customers headquartered in Taiwan. As a result of this geographic concentration, disruption of operations at our facilities or the facilities of our semiconductor manufacturing service providers, suppliers and customers for any

reason, including work stoppages, power outages, water supply shortages, fire, typhoons, earthquakes, contagious diseases or other natural disasters, could cause delays in production and shipments of our products. Any delays or disruptions could result in our customers seeking to source products from our competitors. Shortages or suspension of power supplies have occasionally occurred and have disrupted our operations. The occurrence of a power outage in the future could seriously hurt our business.

The manufacturing processes of TFT-LCD panels require a substantial amount of water and, as a result, the production operations of TFT-LCD panels may be seriously disrupted by water shortages. Our customers may encounter droughts in areas where most of their current or future manufacturing sites are located. If a drought were to occur and our customers or the authorities were unable to source water from alternative sources in sufficient quantities, our customers may be required to shut down temporarily or to substantially reduce the operations of their fabs, which would seriously affect demand for our products. The occurrence of any of these events in the future could adversely affect our business.

Disruptions in Taiwan's political environment could negatively affect our business and the market price of our ADSs.

Our principal executive offices and a substantial amount of our assets are located in Taiwan, and a substantial portion of our revenues is derived from our operations in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our ADSs may be affected by changes in ROC governmental policies, taxation, inflation or interest rates, and by social instability and diplomatic and social developments in or affecting Taiwan that are outside of our control.

Taiwan has a unique international political status. Since 1949, Taiwan and the PRC have been separately governed. The government of the PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. Furthermore, the PRC government adopted an anti-secession law relating to Taiwan. Relations between the ROC and the PRC governments have been strained in recent years for a variety of reasons, including the PRC government's position on the "One China" policy and tensions concerning arms sales to Taiwan by the United States government. Any tension between the ROC and the PRC, or between the United States and the PRC, could materially and adversely affect the market prices of our ADSs.

Fluctuations in exchange rates could result in foreign exchange losses and affect our results of operations.

Our functional and reporting currency is U.S. dollars. In 2010, more than 99.0% of our revenues and cost of revenues were denominated in U.S. dollars. However, we have foreign currency exposure and are primarily affected by fluctuations in exchange rates between the U.S. dollar and the NT dollar. This is because a significant portion of our operating expenses (including for research and development, general and administrative, and sales and marketing expenses) are denominated in NT dollars and we maintain a portion of our cash in NT dollars for local working capital purposes. For example, in December 2010, approximately 66.3% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder in U.S. dollars. Moreover, there are tax-related assets and liabilities on our balance sheet which are denominated in NT dollars. The current global economic crisis may cause increased volatility in exchange rates. From time to time, we enter into forward contracts to hedge our foreign currency exposure, but we cannot assure you that this will adequately protect us against the risk of exchange rate fluctuations and reduce the impact of potential foreign exchange losses. Any significant fluctuation to our disadvantage in exchange rates would have an adverse effect on our results of operations and financial condition.

Changes in ROC tax laws would likely increase our tax expenditures and decrease our net income.

Pursuant to the ROC Statute for Upgrading Industries, which expired at the end of 2009, companies were entitled to tax credits for expenses relating to qualifying research and development, personnel training and purchases of qualifying machinery. The tax credits could be applied within a five-year period. The amount of tax credit that could be applied in any year is limited to 50% of the income tax payable for that year (with the exception of the final year when the remainder of the tax credit may be applied without limitation to the total amount of the income tax). Under the ROC Statute for Upgrading Industries, Himax Taiwan was granted tax credits by the ROC Ministry of Finance at rates set at a certain percentage of the amount utilized in qualifying research and development and

personnel training expenses. The balance of unused investment tax credits totaled \$46.8 million, \$55.3 million and \$55.0 million as of December 31, 2008, 2009 and 2010, respectively. 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. Compared to the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation provides for a smaller amount of tax credits. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of 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. Therefore, the amount of tax credits that could be applied under the ROC Statute for Upgrading Industries and the Statute for Industrial Innovation is limited at 50% of the income tax payable. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward. As a result, the tax credits that we received decreased significantly to \$3.7 million in 2010 compared to \$13.8 million in 2009.

In addition, unlike the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation no longer provides to companies deemed to be operating in important or strategic industries any tax exemption for income attributable to expanded production capacity or newly developed technologies. Pursuant to the ROC Statute for Upgrading Industries, beginning April 1, 2004, January 1, 2006 and January 1, 2008, Himax Taiwan became entitled to three preferential tax treatments, each for a period of five years, which expired or will expire on March 31, 2009, December 31, 2010 and December 31, 2012, respectively, and beginning January 1, 2009, Himax Semiconductor also became entitled to one preferential tax treatment for a period of five years, which will expire on December 31, 2013. As a result of these preferential tax treatments, income attributable to certain of our expanded production capacity or newly developed technologies has been tax exempt for the relevant periods. The effect of such tax exemption under the ROC Statute for Upgrading Industries was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$25.2 million, \$0.07 and \$0.07, respectively, for the year ended December 31, 2008, \$9.4 million, \$0.03 and \$0.03, respectively, for the year ended December 31, 2009, and \$3.6 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2010. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we can continue to enjoy the five-year tax holiday since the relevant investment plans were approved by the ROC tax authority before the expiration of the Statute. However, as the tax exemptions that expired on March 31, 2009 and December 31, 2010 accounted for a substantial portion of our total tax-exempted income under the ROC Statute for Upgrading Industries, our income tax expenses have increased significantly in 2009 and 2010 and may increase further in the future.

We face risks related to health epidemics and outbreaks of contagious diseases, including H1N1 influenza, H5N1 influenza and Severe Acute Respiratory Syndrome, or SARS.

In recent years, there have been reports of outbreaks of a highly pathogenic influenza caused by the H1N1 virus, as well as an influenza caused by the H5N1 virus, in certain regions of Asia and other parts of the world. An outbreak of such contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected the PRC, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. Since all of our operations and substantially all of our customers and suppliers are based in Asia (mainly Taiwan), an outbreak of H1N1 influenza, H5N1 influenza, SARS or other contagious diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected, including the ROC and the PRC, could adversely affect our business, financial condition or results of operations.

Risks Relating to Our ADSs and Our Trading Market

The proposed issuance and offering of securities and listing on the Taiwan Stock Exchange may materially and adversely affect the liquidity and price of our ADSs and result in a dilution of your ADSs.

We are seeking a dual listing of our securities on the Taiwan Stock Exchange. See “Item 9.C. The Offer and Listing—Markets.” Upon the successful listing, our securities will become tradable in the form of TDRs on the Taiwan Stock Exchange and investors’ interest in our securities may shift away from the Nasdaq Global Select Market, on which our ADSs are traded, to the Taiwan Stock Exchange. We may not only have a loss of prospective investors for our ADSs, but existing holders of ADSs may also exchange their ADSs for TDRs for arbitrage or other

reasons. As a result, the liquidity of our ADSs may be materially and adversely affected and our ADS price may become more volatile.

In addition, in connection with our proposed listing on the Taiwan Stock Exchange, we intend to issue new shares for the TDR offering. Your shareholding in our company is therefore subject to dilution in terms of your ownership percentage in our company. In addition, the TDRs could be issued at a discount to the prevailing trading price or fair market value of our ADSs, which could result in significant decreases in our ADS price.

The market price for our ADSs is volatile.

The market price for our ADSs is volatile and has ranged from a low of \$2.00 to a high of \$3.28 on the Nasdaq Global Select Market in 2010. The market price is subject to wide fluctuations in response to various factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in the TFT-LCD panel market;
- changes in the economic performance or market valuations of other display semiconductor companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the addition or departure of key personnel;
- fluctuations in exchange rates between the U.S. dollar and the NT dollar;
- litigation related to our intellectual property and shareholders' lawsuit; and
- the release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ADSs.

In addition, as a result of the worldwide financial crisis, global stock markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons which may not be directly related to their operating performance, including but not limited to events such as tax-loss selling, mutual fund redemptions, hedge fund redemptions and margin calls. These market fluctuations may also materially and adversely affect the market price of our ADSs.

Future sales or perceived sales of securities by us, our executive officers, directors or major shareholders may hurt the price of our ADSs.

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of March 31, 2011, we had 353,842,764 outstanding shares and a significant number of our shares were beneficially owned by certain major shareholders, including our directors and executive officers. See "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." If we, our executive officers, directors or our shareholders sell ADSs or shares, the market price for our shares or ADSs could decline. Future sales, or the perception of future sales, of ADSs or shares by us, our executive officers, directors or existing shareholders could cause the market price of our ADSs to decline.

The level of investor interest and trading in our ADSs could be affected by the lack of coverage by securities research analysts, the lack of investor materials in the Chinese language, and the time difference between New York and Taiwan.

We are currently only listed in the U.S. Investor interest in us may not be as strong as in U.S. companies or Taiwan companies that are listed in Taiwan both because we may not be adequately covered by securities research analyst reports and because of the lack of investor materials in the Chinese language. The lack of coverage could negatively impact investor interest and the level of trading in our ADSs. The interest of both existing and prospective Taiwan-based investors to hold and trade in our ADSs may be impacted by the lack of investor materials

in the Chinese language and the time difference between New York and Taiwan. As a result, the liquidity of our ADSs and the valuation multiples may be lower than if we were listed on the Taiwan Stock Exchange.

Although publicly traded, the trading market in our ADSs has been substantially less liquid than the average stock quoted on the Nasdaq Global Select Market, and this low trading volume may adversely affect the price of our ADSs.

Although our ADSs are traded on the Nasdaq Global Select Market, the trading volume of our ADSs has generally been very low. Reported average daily trading volume in our ADSs was approximately 240,723 ADSs for the three months ended March 31, 2011 compared to approximately 297,040 ADSs for the year ended December 31, 2010. In addition, during the periods between November 8, 2007 and July 31, 2008 and between November 17, 2008 and September 7, 2010, we repurchased a total of approximately \$33.1 million of our ADSs (approximately 7.7 million ADSs) and a total of approximately \$50.0 million of our ADSs (approximately 19.3 million ADSs), respectively, from the open market pursuant to two authorized share buyback programs. The repurchased ADSs and their underlying ordinary shares with respect to these two periods reduced the number of our ordinary shares otherwise outstanding by approximately 7.9% for the first program and approximately 9.9% for the second program. Such share buyback programs or future share repurchases could negatively impact the average trading volume of our ADSs. Limited trading volume will subject our ADSs to greater price volatility and may make it difficult for you to buy or sell your ADSs at a price that is attractive to you.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials sufficiently in advance to be able to exercise your right to vote.

Except as described in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. In certain circumstances, however, the depositary shall refrain from voting and any voting instructions received from ADS holders shall lapse. Furthermore, in certain other circumstances, the depositary will give us a discretionary proxy to vote shares evidenced by ADSs. You may not receive voting materials sufficiently in advance to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time whenever it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it necessary or advisable to do so because of any requirement of law, any government, governmental body, commission, or any securities exchange on which our ADSs or our ordinary shares are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities or any meeting of our shareholders, or for any other reason.

We currently follow home country practice in lieu of complying with certain requirements of the Nasdaq Stock Market LLC. This may afford less protection to holders of our ordinary shares and ADSs.

Rule 5605 of the Marketplace Rules of the Nasdaq Stock Market LLC, or the Nasdaq Rules, requires listed companies to have, among others, a board of directors comprised of a majority of independent directors, the holding of regularly scheduled meetings at which only independent directors are present, a compensation committee, if any, comprised solely of independent directors, and a nominations committee, if any, comprised solely of independent directors. As a foreign private issuer, however, we are permitted to, and we do, follow home country practice in lieu of the above requirements. See “Item 6.C. Directors, Senior Management and Employees—Board Practices” and “Item 16G. Corporate Governance” for more information on the significant differences between our corporate governance practices and those followed by U.S. companies under the Nasdaq Rules. As a result, we have fewer board members exercising independent judgment, and there may be a decreased level of board oversight on the management of our company. The board members who are not independent may also cause a merger, consolidation, change of control or other transactions or actions without the consent of the independent directors, which may lead to a conflict with the interest of holders of our ordinary shares and ADSs. Holders of our ordinary shares and ADSs may therefore be afforded less protection.

Your ability to protect your rights through the United States federal courts may be limited, because we are incorporated under Cayman Islands law, conduct a substantial portion of our operations in Taiwan, and all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands. A substantial portion of our operations is conducted in Taiwan through Himax Taiwan, our wholly owned subsidiary, and substantially all of our assets are located in Taiwan. All of our directors and officers reside outside the United States, and a substantial portion of the assets of those persons is located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of Taiwan may render you unable to enforce a United States judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of multiple damages, taxes, or other charges of a like nature or in respect of a fine or other penalty, may be subject to enforcement proceedings as debt in the courts of the Cayman Islands under the common law doctrine of obligation, provided that (a) such federal or state courts of the United States had proper jurisdiction over the parties subject to such judgment; (b) such federal or state courts of the United States did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than shareholders of a corporation incorporated in a jurisdiction in the United States would.

You may face difficulties in protecting your interests as a shareholder because judicial precedents regarding shareholders’ rights are more limited under Cayman Islands law than under U.S. law, and because Cayman Islands law generally provides less protection to shareholders than U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, or the Cayman Islands Companies Law, and the common law of the Cayman Islands. The rights of shareholders to take action against directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities law than the United States. In addition, some

U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

For example, the Cayman Islands Companies Law differs from laws applicable to United States corporations and their shareholders in certain material respects which may affect shareholders' rights and shareholders' access to information. These differences under the Cayman Islands Companies Law (as compared to Delaware law) include, though are not limited to, the following:

- directors who are interested in a transaction do not have a statutory duty to disclose such interest and there are no provisions under the Cayman Islands Companies Law which render such director liable to the company for any profit realized pursuant to such transaction. Our articles of association, however, contain provisions that require our directors to disclose their interest in a transaction;
- dissenting shareholders do not have comparable appraisal rights if a scheme of arrangement is approved by the Grand Court of the Cayman Islands;
- shareholders may not be able to bring class action or derivative action suits before a Cayman Islands court except in certain exceptional circumstances; and
- unless otherwise provided under the memorandum and articles of association of the company, shareholders do not have the right to bring business before a meeting or call a meeting.

Moreover, certain of these differences in corporate law, including, for example, the fact that shareholders do not have the right to call a meeting or bring business to a meeting, may have anti-takeover effects, which could discourage, delay, or prevent the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise, which a shareholder may have considered in its best interest, and prevent the removal of incumbent officers and directors.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would have as public shareholders of a U.S. company.

Investor confidence and the market price of our ADSs may be adversely impacted if we or our independent registered public accountants conclude that our internal controls over financial reporting are not effective.

The Securities and Exchange Commission, or the SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include in their Annual Report on Form 10-K or Form 20-F, as the case may be, a report of management on the company's internal controls over financial reporting that contains an assessment by management of the effectiveness of the company's internal controls over financial reporting. In addition, the company's independent registered public accounting firm must report on the company's internal control over financial reporting. Our management may conclude that our internal controls over financial reporting are not effective. Moreover, even if our management does conclude that our internal controls over financial reporting are effective, if our independent registered public accounting firm is not satisfied with our internal controls, the level at which our controls are documented, designed, operated or reviewed, or if our independent registered public accounting firm interprets the requirements, rules or regulations differently from us, then it may conclude that our internal controls over financial reporting are not effective. Furthermore, during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in a timely manner. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Furthermore, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. In addition, we have incurred considerable costs and used significant management time and other resources in our effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Himax Taiwan, our predecessor, was incorporated on June 12, 2001 as a limited liability company under the laws of the ROC. On April 26, 2005, we established Himax Technologies Limited, an exempted company with limited liability under the Cayman Islands Companies Law as a holding company to hold the shares of Himax Taiwan in connection with our reorganization and share exchange. On October 14, 2005, Himax Taiwan became our wholly owned subsidiary through a share exchange consummated pursuant to the ROC Business Mergers and Acquisitions Law through which we acquired all of the issued and outstanding shares of Himax Taiwan, and we issued ordinary shares to the shareholders of Himax Taiwan. Shareholders of Himax Taiwan received one of our ordinary shares in exchange for one Himax Taiwan common share. The share exchange was unanimously approved by shareholders of Himax Taiwan on June 10, 2005 with no dissenting shareholders and by the ROC Investment Commission on August 30, 2005 for our inbound investment in Taiwan, and on September 7, 2005 for our outbound investment outside of Taiwan. We effected this reorganization and share exchange to comply with ROC laws, which prohibit a Taiwan incorporated company not otherwise publicly listed in Taiwan from listing its shares on an overseas stock exchange. Our reorganization enables us to maintain our operations through our Taiwan subsidiary, Himax Taiwan, while allowing us to list our shares overseas through our holding company structure.

The common shares of Himax Taiwan were traded on the Emerging Stock Board from December 26, 2003 to August 10, 2005, under the stock code “3222.” Himax Taiwan’s common shares were delisted from the Emerging Stock Board on August 11, 2005. As a result of our reorganization, Himax Taiwan is no longer a Taiwan public company, and its common shares are no longer listed or traded on any trading markets.

On September 26, 2005, we changed our name to “Himax Technologies, Inc.,” and on October 17, 2005, Himax Taiwan changed its name to “Himax Technologies Limited” upon the approval of shareholders of both companies and amendments to the respective constitutive documents. We effected the name exchange in order to maintain continuity of operations and marketing under the trade name “Himax Technologies, Inc.,” which had been previously used by Himax Taiwan.

In February 2007, we completed the acquisition of Wisepal, or currently known as Himax Semiconductor, Inc., a fabless semiconductor company focusing on the development of LTPS TFT-LCD drivers for small and medium-sized applications. This transaction strengthened our competitive position in the small and medium-sized product areas and further diversified our technology and product offerings. From time to time, we have also made minority investments in various companies for strategic purposes in the ordinary course of business.

In March 2007, we established Himax Imaging, Inc., or Himax Imaging, which develops and markets CMOS image sensors with an initial focus on camera applications used in cell phones and notebook computers.

In October 2007, we formed Himax Media Solutions, Inc., or Himax Media Solutions, which oversees our TFT-LCD television and monitor chipset business with a focus on expanding market share in the global TFT-LCD television and monitor chipset market. In January 2008, Himax Media Solutions issued shares representing an interest of 19.9% in total to CMO, TPV Technology Limited, the world’s largest LCD monitor manufacturer and LCD TV ODM, and individuals including certain employees of CMO, TPV Technology Limited, Himax Media Solutions and Himax Taiwan.

On August 10, 2009, we effected: (i) a stock split in the form of a stock dividend of 5,999 ordinary shares for each ordinary share held by shareholders of record, followed by a consolidation of every 3,000 ordinary shares into one ordinary share; (ii) a change of the par value of our ordinary shares from \$0.0001 each to \$0.3 each; and (iii) a change in our ADS ratio from one ADS representing one ordinary share to one ADS representing two ordinary shares.

In November 2009, we filed a listing application with the Taiwan Stock Exchange to list our ordinary shares on its main board. We aborted such primary listing plan in May 2010 and are currently preparing an alternative application to list TDRs on the Taiwan Stock Exchange. See “Item 9.C. The Offer and Listing—Markets.”

In November 2010, our subsidiary, Himax Display, entered into definitive agreements with Spatial Photonics, a Delaware corporation engaged in the business of manufacturing and production of large-sized display panels, to

subscribe for certain Series D-1 Preferred Stock with an equity interest of 15.4% in Spatial Photonics for a cash consideration of \$6.5 million. Himax Display had an option, exercisable on or before October 31, 2011, to acquire all of the remaining outstanding shares of capital stock of Spatial Photonics in exchange for certain number of common stock of Himax Display, in accordance with various milestone events, subject to a maximum of 20% of the common stock of Himax Display, calculated on a fully diluted basis.

Our capital expenditures were incurred primarily in connection with purchase of property and equipment. Our capital expenditures totaled \$17.5 million, \$10.6 million and \$7.2 million in 2008, 2009 and 2010, respectively. These capital expenditures were funded from our operating cash flow. For additional information on our capital expenditures, see Item “5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

Our principal executive offices are located at No. 26, Zih Lian Road, Sinshih District, Tainan City 74148, Taiwan, Republic of China. Our telephone number at this address is +886-6-505-0880. Our registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our telephone number at this address is +1-345-945-3901. In addition, we have offices in Hsinchu and Taipei, Taiwan; Foshan, Fuqing, Ningbo, Beijing, Shanghai, Shenzhen and Suzhou, China; Yokohama and Matsusaka, Japan; Cheonan, South Korea; and Irvine, California, USA.

Investor inquiries should be directed to our Investor Relations department, at +886-2-2370-3999 ext. 22618 or by email to jessie_wang@himax.com.tw. Our website is www.himax.com.tw. The information contained on our website is not part of this annual report. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

Our ADSs have been listed on the Nasdaq Global Select Market since March 31, 2006. Our ordinary shares are not listed or publicly traded on any trading markets.

4.B. Business Overview

We design, develop and market semiconductors that are critical components of flat panel displays. Our principal products are display drivers for large-sized TFT-LCD panels, which are primarily used in desktop monitors, notebook computers and televisions, and display drivers for small and medium-sized TFT-LCD panels, which are primarily used in mobile handsets and consumer electronics products such as tablet PCs, netbook computers (typically ten inches or below in diagonal measurement), digital cameras, mobile gaming devices, portable DVD players, digital photo frame and car navigation displays. We also offer display drivers for panels using OLED technology and LTPS technology. In addition, we are expanding our product offerings to include non-driver products such as timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors and wafer level optics products. For display drivers and display-related products, our customers are panel manufacturers, agents or distributors, module manufacturers and assembly houses. We also work with camera module manufacturers, optical engine manufacturers, television system manufacturers for various non-driver products. We believe that our leading design and engineering expertise, combined with our focus on customer service and close relationships with semiconductor manufacturing service providers, has contributed to our success.

Industry Background

We mainly operate in the flat panel display semiconductor industry. As the majority of our revenues derive from products that are critical components of flat panel displays, such as display drivers, timing controllers, scalars, power ICs and other semiconductor products, our industry is closely linked to the trends and developments of the flat panel display industry.

Flat Panel Display Semiconductors

Flat panel displays require different semiconductors depending upon the display technologies and the applications. Some of the most important ones include the following:

- *Display Driver.* The display driver receives image data from the timing controller and delivers precise analog voltages or currents to create images on the display. The two main types of display drivers for a TFT-LCD panel are gate drivers and source drivers. Gate drivers turn on the transistor within each pixel cell on the horizontal line on the panel for data input at each row. Source drivers receive image data from

the timing controller and generate voltage that is applied to the liquid crystal within each pixel cell on the vertical line on the panel for data input at each column. The combination determines the colors generated by each pixel. Typically multiple gate drivers and source drivers are installed separately on the panel. However, for certain small and medium-sized applications, gate drivers and source drivers are integrated into a single chip due to space and cost considerations. Large-sized panels typically have higher resolution and require more display drivers than small and medium-sized panels.

- *Timing Controller.* The timing controller receives image data and converts the format for the source drivers' input. The timing controller also generates controlling signals for gate and source drivers. Typically, the timing controller is a discrete semiconductor in large-sized TFT-LCD panels. For certain small and medium-sized applications, however, the timing controller may be integrated with display drivers.
- *Scaler.* For certain displays, a scaler is installed to magnify or shrink image data in order for the image to fill the panel.
- *Operational Amplifier.* An operational amplifier supplies the reference voltage to source drivers in order to make their output voltage uniform.
- *Television Chipset.* Television flat panel displays require chipsets that typically contain all or some of the following components: an audio processor, analog interfaces, digital interfaces, a video processor, a channel receiver and a digital television decoder. See “—Products—TFT-LCD Television and Monitor Semiconductor Solutions—TFT-LCD Television and Monitor Chipsets” for a description of these components.
- *Power IC.* Power ICs include certain drivers, amplifiers, DC to DC converters and other semiconductors designed to enhance power management, such as voltage regulation, voltage boosting and battery management.
- *Others.* Flat panel displays also require multiple general purpose semiconductors such as memory, power converters and inverters.

Characteristics of the Display Driver Market

Although we operate in several distinct segments of the flat panel display semiconductor industry, our principal products are display drivers. Display drivers are critical components of flat panel displays. The display driver market has specific characteristics, including those discussed below.

Concentration of Panel Manufacturers

The global TFT-LCD panel industry consists of a small number of manufacturers, substantially all of which are based in Asia. In recent years, TFT-LCD panel manufacturers, in particular Taiwan-, Korea- and China-based manufacturers, have invested or are planning to invest heavily to establish, construct and ramp up additional fab capacity. The capital intensive nature of the industry often results in TFT-LCD panel manufacturers operating at a high level of capacity utilization in order to reduce unit costs. This tends to create a temporary oversupply of panels, which reduces the average selling price of panels and puts pricing pressure on component companies including display driver companies. Moreover, the concentration of panel manufacturers permits major panel manufacturers to exert pricing pressure on display driver companies such as us. The small number of panel manufacturers intensifies this as display driver companies, in addition to seeking to expand their customer base, must also focus on winning a larger percentage of such customers' display driver requirements.

Customization Requirements

Each panel display has a unique pixel design to meet its particular requirements. To optimize the panel's performance, display drivers have to be customized for each panel design. The most common customization requirement is for the display driver company to optimize the gamma curve of each display driver for each panel design. Display driver companies must work closely with their customers to develop semiconductors that meet their customers' specific needs in order to optimize the performance of their products.

Display drivers have specific design and manufacturing requirements that are not standard in the semiconductor industry. Some display drivers require mixed-signal design since they combine both analog and digital devices on a single semiconductor to process both analog signals and digital data. Manufacturing display drivers requires high-voltage CMOS process technology operating typically at 4.5 to 24 volts for source drivers and 10 to 50 volts for gate drivers, levels of voltage which are not standard in the semiconductor industry. For display drivers, the driving voltage must be maintained under a very high degree of uniformity, which can be difficult to achieve using standard CMOS process technology. However, manufacturing display drivers does not require very small-geometry semiconductor processes. Typically, the manufacturing process for large panel display drivers requires geometries between 0.11 micron and 1 micron because the physical dimensions of a high-voltage device do not allow for the economical reduction in geometries below this range. We believe that there are a limited number of fabs with high-voltage CMOS process technology that are capable of high-volume manufacturing of display drivers.

Special Assembly and Testing Requirements

Manufacturing display drivers requires certain assembly and testing technologies and equipment that are not standard for other semiconductors and are offered by a limited number of providers. The assembly of display drivers typically uses either tape automated bonding, also known as TAB, or chip-on-glass, also known as COG, technologies. Display drivers also require gold bumping, which is a process in which gold bumps are plated onto each wafer to connect the die and the processed tape, in the case of TAB packages, and the glass, in the case of COG packages. TAB may utilize tape carrier package, also known as TCP, or chip on film, also known as COF. The type of assembly used depends on the panel manufacturer's design, which is influenced by panel size and application and is typically determined by the panel manufacturers. Display drivers for large-sized applications typically require TAB package types and, to a lesser extent COG package types, whereas display drivers for mobile handsets and consumer electronics products typically require COG packages. The testing of display drivers also requires special testers that can support high-channel and high-voltage output semiconductors. Such testers are not standard in the semiconductor industry.

Supply Chain Management

The manufacturing of display drivers is a complex process and requires several manufacturing stages such as wafer fabrication, gold bumping and assembly and testing, and the availability of materials such as the processed tape used in TAB packaging. We refer to these manufacturing stages and material requirements collectively as the "supply chain." Panel manufacturers typically operate at high levels of capacity utilization and require a reliable supply of display drivers. A shortage of display drivers, or a disruption to this supply, may disrupt panel manufacturers' operations since replacement supplies may not be available on a timely basis or at all, given the customization of display drivers. As a result, a display driver company's ability to deliver its products on a timely basis at the quality and quantity required is critical to satisfying its existing customers and winning new ones. Such supply chain management is particularly crucial to fabless display driver companies that do not have their own in-house manufacturing capacity. In the case of display drivers, supply chain management is further complicated by the high-voltage CMOS process technology and the special assembly and testing requirements that are not standard in the semiconductor industry. Access to this capacity also depends in part on display driver companies having received assurances of demand for their products since semiconductor manufacturing service providers require credible demand forecasts before allocating capacity among customers and investing to expand their capacity to support growth.

Need for Higher Level of Integration

The small form factor of mobile handsets and certain consumer electronics products restricts the space for components. Small and medium-sized panel applications typically require one or more source drivers, one or more gate drivers and one timing controller, which can be installed as separate semiconductors or as an integrated single-chip driver. Customers are increasingly demanding higher levels of integration in order to manufacture more compact panels, simplify the module assembly process and reduce unit costs. Display driver companies must be able to offer highly integrated chips that combine the source driver, gate driver and timing controller, as well as semiconductors such as memory, power circuit and image processors, into a single chip. Due to the size restrictions and stringent power consumption constraints of such display drivers, single-chip drivers are complex to design. For

large-sized panel applications, integration is both more difficult to achieve and less important since size and weight are less of a priority.

Products

We have several principal product lines:

- display drivers and timing controllers;
- touch controller ICs,
- TFT-LCD television and monitor semiconductor solutions;
- LCOS products;
- power ICs;
- CMOS image sensors; and
- wafer level optics products.

We commenced volume shipments of our first source and gate drivers for large-sized panels in July 2001 and have developed a broad product portfolio of display drivers and timing controllers for use in large-sized TFT-LCD panels. We commenced volume shipments of our first display drivers for use in consumer electronics applications in April 2002, volume shipments of two-chip display drivers for mobile handsets in August 2003 and volume shipments of single-chip display drivers for mobile handsets in August 2004. In September 2004, we commenced volume shipments of our first television semiconductor solutions. We commenced shipping engineering samples of LCOS products in December 2003 and started volume shipments in June 2006. We commenced shipping engineering samples of power ICs in October 2006 and started volume shipments in January 2007. We commenced small quantity commercial shipments of our CMOS image sensor products in April 2009 and started volume shipments in August 2010. We commenced small quantity commercial shipments of our wafer level optics products in December 2009. We commenced small quantity commercial shipments of our touch controller products in December 2010.

Display Drivers and Timing Controllers

Display Driver Characteristics

Display drivers deliver precise analog voltages and currents that activate the pixels on panels. The following is a summary of certain display driver characteristics and their relationship to panel performance.

- *Resolution and Number of Channels.* Resolution refers to the number of pixels per line multiplied by the number of lines, which determines the level of fine detail within an image displayed on a panel. For example, a color display screen with 1,024 x 768 pixels has 1,024 red columns, 1,024 green columns and 1,024 blue columns for a total of 3,072 columns and 768 rows. The red, green and blue columns are commonly referred to as “RGB.” Therefore, the display drivers need to drive 3,072 column outputs and 768 row outputs. The number of display drivers required for each panel depends on the resolution of the panel and the number of channels per display driver. For example, an XGA (1,024 x 768 pixels) panel requires eight 384 channel source drivers (1,024 x 3 = 384 x 8) and three 256 channel gate drivers (768 = 256 x 3), while a full HD (1,920 x 1,080 pixels) panel requires eight 720 channel source drivers and four 270 channel gate drivers. The number of display drivers required can be reduced by using drivers with a higher number of channels. For example, a full HD panel can have six 960 channel source drivers instead of eight 720 channel source drivers. Thus, using display drivers with a higher number of channels can reduce the number of display drivers required for each panel, although display drivers with a higher number of channels typically have higher unit costs.
- *Color Depth.* Color depth is the number of colors that can be displayed on a screen, which is determined by the number of shades of a color, also known as grayscale, that can be shown by the panel. For example, a 6-bit source driver is capable of generating $2^6 \times 2^6 \times 2^6 = 2^{18}$, or 262K colors, and similarly, an 8-bit source driver is capable of generating 16 million colors. Typically, for TFT-LCD panels currently in commercial

production, 262K, 16 million and 1 billion colors are supported by 6-bit, 8-bit and 10-bit source drivers, respectively.

- *Operational Voltage.* A display driver operates with two voltages: the input voltage (which enables it to receive signals from the timing controller) and the output voltage (which, in the case of source drivers, is applied to liquid crystals and, in the case of gate drivers, is used to switch on the TFT device). Source drivers typically operate at input voltages from 4.5 to 1.5 volts and output voltages between 4.5 to 24 volts. Gate drivers typically operate at input voltages from 3.3 to 1.5 volts and output voltages from 10 to 50 volts. Lower input voltage saves power and lowers electromagnetic interference, or EMI. Output voltage may be higher or lower depending on the characteristics of the liquid crystal (or diode), in the case of source drivers, or TFT device, in the case of gate drivers.
- *Gamma Curve.* The relationship between the light passing through a pixel and the voltage applied to it by the source driver is nonlinear and is referred to as the “gamma curve” of the source driver. Different panel designs and manufacturing processes require source drivers with different gamma curves. Display drivers need to adjust the gamma curve to fit the pixel design. Due to the materials and processes used in manufacturing, panels may contain certain imperfections which can be corrected by the gamma curve of the source driver, a process which is generally known as “gamma correction.” For certain types of liquid crystal, the gamma curves for RGB cells are significantly different and thus need to be independently corrected. Some advanced display drivers feature three independent gamma curves for RGB cells.
- *Driver Interface.* Driver interface refers to the connection between the timing controller and display drivers. Display drivers increasingly require higher bandwidth interface technology to address the larger data volume necessary for video images. Panels used for higher data transmission applications such as televisions require more advanced interface technology. The principal types of interface technologies are transistor-to-transistor logic, or TTL, reduced swing differential signaling, or RSDS, mini-low voltage differential signaling, or mini-LVDS, and mobile industry processor interface, or MIPI. Among these, RSDS, mini-LVDS and MIPI were developed as low power, low noise and low amplitude methods for high-speed data transmission using fewer copper wires and resulting in lower EMI. Moreover, there are some panel manufacturers developing their proprietary point-to-point interfaces, such as embedded panel interface, or EPI, and advanced intra-panel interface, or API,
- *Package Type.* The assembly of display drivers typically uses TAB and COG package types. COF and TCP are two types of TAB packages, of which COF packages have become predominantly used in recent years. Customers typically determine the package type required according to their specific mechanical and electrical considerations. In general, display drivers for small-sized panels use COG package type whereas display drivers for large-sized panels primarily use TAB package types and, to a lesser extent, COG package types.

Large-Sized Applications

We provide source drivers, gate drivers and timing controllers for large-sized panels principally used in desktop monitors, notebook computers and televisions. Display drivers used in large-sized applications feature different key characteristics, depending on the end-use application. For example, the industry trend for large-sized applications is generally toward super high channel, low power consumption, low cost, thin and light form factor, touch function, higher data transmission rate and higher driving capabilities. Higher speed interface technologies are also key for 240Hz TV. Greater color depth, enhanced color through RGB independent gamma and 3D display are particularly important for advanced televisions and certain monitors.

In December 2007, we introduced the cascade modulated driver interface, or CDMI, technology, a patented technology for LED notebook panels, benefits of which include a thin and light form factor and lower power consumption and supports a resolution of up to 1,920 x 1,200 pixels.

In February 2009, we introduced timing controllers with the content adaptive brightness control, or CABC, technology. CABC technology controls backlight brightness intelligently by analyzing the content displayed to save power and enhance the contrast level while maintaining vivid display quality. Our algorithm enables a smooth adjustment in backlight brightness even when the content changes swiftly.

The table below sets forth the features of our products for large-sized applications:

Product	Features
TFT-LCD Source Drivers	<ul style="list-style-type: none"> • 384 to 1,032 output channels • 6-bit (262K colors), 8-bit (16 million colors) or 10-bit (1 billion colors) • one gamma-type driver • three gamma-type drivers (RGB independent gamma curve to enhance color image) • output driver voltage ranging from 4.5V to 24V and support half VDDA • input logic voltage ranging from standard 3.3V to low power 1.5V • low power consumption and low EMI • support TCP, COF and COG package types • support TTL, RSDS, mini-LVDS (up to 330MHz), dual edge transistor-to-transistor logic, or DETTL, turbo RSDS, cascade modulated driver interface, or CMDI, and customized interface technologies • support dual gate and triple gate panel designs
TFT-LCD Gate Drivers	<ul style="list-style-type: none"> • 192 to 600 output channels • output driving voltage ranging from 10 to 50V • input logic voltage ranging from standard 3.3V to low power 1.5V • low power consumption • support TCP, COF and COG package types • support dual gate and triple gate panel designs
Timing Controllers	<ul style="list-style-type: none"> • product portfolio supports a wide range of resolutions, from VGA (640 x 480 pixels) to full HD (1,920 x 1,080 pixels and 1,920 x 1,200 pixels) • support TTL, RSDS, mini-LVDS, DETTL, turbo RSDS, CMDI and customized output interface technologies • input logic voltage ranging from standard 3.3V to low power 1.5V • embedded overdrive function to improve response time • support CABC to save power and color engine to enhance color and sharpness • support TTL, LVDS and DisplayPort input interface technologies

Mobile Handset Applications

We offer display drivers for mobile handset displays that combine source driver, gate driver, timing controller, frame buffer and DC to DC circuits into a single chip in various display technologies, such as TFT-LCD, LTPS and AMOLED. As mobile handset prices remain competitive, mobile display module manufacturers continue to reduce cost and seek to source cost-effective display drivers. By designing a finer channel pitch that features cost efficient processes, we have offered a smaller chip size and endeavor to provide handset display driver products with fewer external components to reduce the cost of materials for our customers.

The industry trend for mobile handset display drivers is generally toward display drivers that can support high-speed interfaces and have greater color depth and enhanced image quality as multimedia functions are increasingly incorporated into mobile handsets. In addition, the ability for mobile handsets to operate for long durations without recharging the battery is of high value. Thus, display drivers with lower power consumption are desired. We integrated our proprietary low power driving circuits and CABC technology into display drivers in order to extend the battery life.

With new software platforms providing better access to the Internet, smartphones have gained greater popularity among consumers and enjoyed higher growth in recent years. This has also contributed to higher demand for mobile handset displays that have a larger size and higher resolution. In 2010, we offered innovative handset

display driver products by providing one of the leading amorphous silicon WVGA (480 x 864 pixels) display drivers in the market. We have recently continued to update new products for this mainstream smartphone segment with new features, such as color enhancement technology and 3D data processing capability. Meanwhile, we have developed advanced single chip LTPS display drivers, which are able to achieve higher resolutions such as HD720 (720 x 1280 pixels) or WXGA (800 x 1280 pixels).

The following table summarizes the features of our products for mobile handsets:

Product	Features
TFT-LCD Drivers	<ul style="list-style-type: none"> • highly integrated single chip embedded with the source driver, gate driver, power circuit, timing controller and memory • suitable for a wide range of resolutions from QQVGA (128 x 160 pixels) to WVGA (480 x 864 pixels) • support 262K colors to 16 million colors • support RGB separated gamma adjustment • support CABC • support mobile display digital interface, or MDDI, and mobile industry processor interface, or MIPI • low power consumption and low EMI • utilize die shrink technology to reduce die size and cost • fewer external components to reduce costs • slimmer die for compact module to fit smaller mobile handset designs • application specific integrated circuits, or ASIC, can be designed to meet customized requirements (e.g., drivers without memory or drivers without gate driver embedded on the chip)
LTPS Drivers	<ul style="list-style-type: none"> • highly integrated single chip embedded with the source driver, power circuit, timing controller and memory • suitable for higher resolutions such as nHD (360 x 640 pixels), WVGA (480 x 864 pixels), or HD720 (720 x 1280 pixels) • support 16 million colors • support RGB separated gamma adjustment • support CABC • support compact display port, or CDP, MDDI, and MIPI • utilize die shrink technology to reduce die size and cost • slimmer die for compact module • ASIC can be designed to meet customized requirements (e.g., gateless or multi-bank output driver)

Consumer Electronics Products

We offer source drivers, gate drivers, timing controllers and integrated drivers for consumer electronics products such as tablet PCS, netbook computers, digital cameras, digital video recorders, personal digital assistants, mobile gaming devices, portable DVD players, electronic book readers, or E-readers, digital photo frames and car navigation displays. We offer an extensive line of display drivers covering different applications, interfaces and channel output and levels of integration. Similar to mobile handsets, consumer electronics products are typically compact, battery-operated devices. Customers are increasingly demanding display drivers with smaller and more compact die sizes and higher levels of integration with the source driver, gate driver, timing controller, as well as more functional semiconductors such as power circuit and touch controller, into a single chip.

The industry trend for display drivers used in medium-sized consumer electronics products is toward higher channels and the integration of timing controllers with display drivers. The trend of display drivers used in small-sized consumer electronics products is toward single-chip solutions combining the source driver, gate driver, timing controller and power circuit into a single chip.

In 2009, we introduced our new electro-phoretic display solutions, including HX8701 (gate driver), HX8702 (source driver) and HX8704 (timing controller), for use in E-reader devices.

The following table summarizes the features of our products used in consumer electronics products:

Product	Features
TFT-LCD Source Drivers	<ul style="list-style-type: none"> • 240 to 1,366 output channels • products for analog and digital interfaces • support 262K colors to 16.7 million colors • input logic voltage ranging from standard 3.3V to low power 2.3V • low power consumption and low EMI
TFT-LCD Gate Drivers	<ul style="list-style-type: none"> • 96 to 1,600 output channels • input logic voltage ranging from standard 3.3V to low power 2.3V • output driving voltage ranging from 10 to 40V
TFT-LCD Integrated Drivers	<ul style="list-style-type: none"> • highly integrated single chip embedded with source driver, gate driver, timing controller and power circuit • resolutions include WVGA (846 x 480 pixels), SVGA (800 x 600 pixels), WSVGA (1,024 x 600 pixels) and WXGA (1,280 x 800 pixels) • products for analog or digital interfaces • low power consumption • CABC function integrated for backlight power saving
Timing Controllers	<ul style="list-style-type: none"> • products for analog or digital interfaces • products for E-readers • support various resolutions from 800 x 400 pixels to 1,366 x 768 pixels

Touch Controller ICs

We offer touch controller solutions for capacitive touch panels. Our touch controller solutions are suitable for electronic devices employing touch panel screens of up to 8", such as smartphones, mobile internet devices, tablet PCs, and all-in-one PCs. In the fourth quarter of 2010, we commenced shipping capacitive touch controller ICs to a leading Chinese-based customer for its Android OS based mobile internet device, or MID, and tablet PC applications.

Our capacitive touch controller possesses certain innovations and merits. It could support sensing and tracking of up to ten points. Its embedded micro-controller and single chip solution contribute to reducing cost for MID and tablet PCs. Its auto-calibrated sensing circuits make touch panels designed with our touch controller simple and neat without external resistors or capacitors. Our touch controller's proprietary sensing algorithms could also enhance noise immunity capability and enable touch panels work fluently with TFT-LCD or OLED without shielding layer to block coupling noise from display, which contributes to simplifying the manufacturing process and reducing cost for touch panels.

The following table summarizes the features of our touch controller products:

Product	Features
Capacitive Touch Controller	<ul style="list-style-type: none"> • complete single chip touch controller solutions for handheld devices, supporting smartphones (up to 5"), MIDs (up to 8"), or tablet PCs (up to 11") • real multi-point capability support of up to 10 points • proprietary hardware and software design with minimum external components and good noise immunity • minimum components: simple, neat, and flexible mechanical design • good noise immunity without shielding layer or air-gap

TFT-LCD Television and Monitor Semiconductor Solutions

Himax Media Solutions, our subsidiary, provides TFT-LCD television and monitor semiconductor solutions.

TFT-LCD Television and Monitor Chipsets

Television chipsets contain numerous components that process video and audio signals and thus enhance the image and audio qualities of televisions. Digital and analog televisions typically require some or all of these components:

- *Audio Processor/Amplifier.* Demodulates, processes and amplifies sound from television signals.
- *Analog Interfaces.* Convert analog video signals into digital video signals. Video decoder and analog-to-digital converter, or ADC, are included.
- *Digital Interfaces.* Receive digital signals via digital receivers. Digital visual interfaces, or DVI, and high-definition multimedia interfaces, or HDMI, are included.
- *Channel Receiver.* Demodulates input signals so that the output becomes compressed bit stream data.
- *DTV Decoder.* Converts video and audio signals from compressed bit stream data into regular video and audio signals.
- *Video Processor.* Performs the scaling function that magnifies or shrinks the image data in order to fit the panel's resolution; provides real-time processing for improved color and image quality; converts output video from an interlaced format to a progressive format in order to eliminate jaggedness; and supports on-screen display and real-time video format transformation.

We are developing all of the above components and have shipped our analog TV single-chip solutions in volume. Our analog TV single-chip solutions are designed for use in televisions as well as LCOS applications and our product portfolio includes high-performance chips that target high-end segments as well as cost-effective chips which target entry-level segments.

The following table summarizes the features of our video processors:

Product	Features
Analog TV Single-Chip Solutions	<ul style="list-style-type: none">• ideal for LCD TV, multi-function monitor TV, LCOS and plasma display panel applications• integrated with high performance ADC, scaler and de-interlacer• built-in HDMI receiver and USB on-the-go, or USB OTG• integrated with video decoder and 3D comb filter to support worldwide National Television System Committee, or NTSC, phase alternating line, or PAL, and sequential color with memory, or SECAM, standards• integrated with vertical blanking interval slicer for closed caption, viewer-control chip and teletext functions• built-in Himax 5th generation video engine which supports variable dynamic video enhancement features• built-in analog audio demodulator, audio processor and surround integrated high speed microprocessor control unit, or MCU• integrated with timing control for additional cost-down• output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixels
Digital TV Integrated Solutions	<ul style="list-style-type: none">• embedded digital demodulators: ATSC, DVB-T, DVB-C, and DVMB• embedded analog demodulator: picture intermediate frequency for NTSC, PAL and SECAM

Product**Features**

- embedded multi-format video stream decoder: MPEG2, MPEG4, AVS, Real Video and H.264 up to full HD
- embedded audio stream decoder: MPEG1 I/II/III and MPEG2 layer 2 I/II/III, Dolby audio coding 3, Dolby Digital Plus, advanced audio coding and Real Audio
- built-in HDMI receiver and USB OTG
- embedded audio processor: sound retrieval system
- embedded high performance RISC CPU
- embedded 3D video processor
- input resolution up to full HD (1,920 x 1,080 pixels)
- output resolution up to full HD (1,920 x 1,080 pixels)

The following table summarizes the features of our monitor scaler solutions:

Product	Features
Monitor Scaler Integrated Solutions	<ul style="list-style-type: none"> • ideal for monitor applications • integrated with high performance ADC and scaler • built-in HDMI and DVI receiver • built-in audio digital-to-analog converter • built-in high performance color engine • integrated high speed MCU • integrated with timing control for additional cost-down • input/output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixels

In December 2009, we announced the introduction of infinity color technology, or iCT, an innovative and proprietary image processing technology which enables significant power saving for TFT-LCD panels while enhancing image quality. TFT-LCD backlight, whether by using cold cathode fluorescent lamps or LEDs, typically maintains a constant brightness at all times, regardless of the displayed images. A commonly adopted technique in saving backlight power is CABG which dynamically adjusts the backlight and the contents. While this digital approach is able to save panel power, it leads to a loss in gray scales while adjusting the gamma curve, therefore resulting in a less satisfactory image quality. In contrast, iCT is an innovative mixed-mode image processing technology, which not only enhances image quality but also saves significant panel power.

In February 2010, we unveiled the innovative 2D to 3D conversion solution which can convert 2D images into the 3D format in real time. This compact solution can be implemented in a number of hardware platforms, such as notebook personal computers and televisions. Our algorithm utilizes human visual perception characteristics, which not only reveals more 3D details but may also offer a more comfortable and enjoyable viewing experience.

The following table summarizes the features of our iCT and 2D to 3D conversion solutions:

Product	Features
Power-Saving iCT Solutions	<ul style="list-style-type: none"> • built-in single/dual path 8/10-bit LVDS receiver • support up to 1920x1080@75HZ resolution • built-in single/dual path 6/8-bit RSDS transmitter for low power consumption and low EMI • built-in single/dual 8/10-bit LVDS transmitter • built-in single/dual 6/8-bit 3/6-pair mini-LVDS transmitter • support polarity 1 or 1+2 line inversion mode and dual-gate/Z-inversion panel structure • embedded aging generator for simplifying TFT-LCD panel dynamic burn-in test • support low color shift, initial download from electrically-erasable programmable read-only memory, or EEPROM • support serial bus programming from scaler to select up to 4 different initial download value settings (depend on the size of EEPROM)

Product	Features
	<ul style="list-style-type: none"> • embedded 3D color engine, 10-bit gamma correction look-up table • programmable sRGB matrix coefficients • embedded dynamic analog gamma control, dynamic exposure adaptation control, CABC and over drive • support up to external 20+1-channel gamma buffer with 10-bit resolution control by 2-wire serial bus
2D to 3D Conversion Solutions	<ul style="list-style-type: none"> • convert 2D video sequence to 3D video sequence for 3D display • enable virtual 3D experience on 2D display based on human 3D perception characteristics • use human perception based processing with better performance and fewer side effects • support 2D bypass mode, 2D to 3D converter mode and 3D bypass mode • support a wide range of display formatting and interface, including LVDS and TTL • support anaglyph, pattern retarder or micro-retarder and CheckerBoard 2-view 3D display • configurable stereoscopic density; support in-front-of-screen, behind-the-screen and on-the-screen configurations • support resolutions up to full HD • enable integration into existing TV, monitor, portable DVD, digital photo frame and other 3D display devices • support top-and-bottom, frame packing, side-by-side (full) and side-by-side (half) 3D formats • support dual LVDS, front/back quad LVDS, non-front/back quad LVDS and left/right parallel quad LVDS for output format • support 8-bit/10-bit LVDS for both input and output formats

LCOS Products

Himax LCOS microdisplays and the associated projector technologies are beginning mass production for, in particular, palm-size mobile projectors. Our design and manufacturing capabilities for LCOS microdisplays are conducted through our subsidiary, Himax Display, Inc., or Himax Display. In January 2008, we announced a strategic alliance with 3M, one of the world's leading companies in optics technology, to commercialize the applications of LCOS mobile projectors. 3M developed proprietary projection optics which were incorporated with our proprietary color-filter LCOS microdisplays for a series of miniature projector modules. In August 2009, we introduced our LCOS microdisplays for use by the world's first projector-embedded digital camera. Commercial applications of LCOS-embedded projectors are expected to see an increasing demand in consumer electronics market.

In addition to color-filter LCOS microdisplays, we have also developed color-sequential LCOS microdisplays, which commenced mass production in 2010. The color-filter type has a simpler projection architecture with a white LED, while the color-sequential type requires three-color LEDs and can offer better colors. We designed the two types of microdisplays in a way that most of their optical components can be shared. With the production of these two types of LCOS microdisplays and the leverage of optical components, we are building up a broad product line-up of a variety of LCOS projector modules for various applications. The following table shows certain details of our LCOS microdisplays:

LCOS Microdisplays	Size and Resolution	Applications
Color-Filter LCOS Microdisplays	<ul style="list-style-type: none"> • 0.28" (320 x 240 pixels) • 0.38" (640 x 360 pixels) • 0.44" (640 x 480 pixels) • 0.59" (800 x 600 pixels) • Customized design 	<ul style="list-style-type: none"> • toy projectors / embedded projectors • entry-level video projectors • versatile projectors • multimedia projectors • specialized

Color-Sequential LCOS	<ul style="list-style-type: none"> • 0.22" (640 x 360 pixels) 	<ul style="list-style-type: none"> • toy projectors / embedded projectors
Microdisplays	<ul style="list-style-type: none"> • 0.28" (852 x 480 pixels) • 0.38" (640 x 480 pixels) • 0.37" (800 x 600 pixels) • 0.37" (1366 x 768 pixels) • 0.45" (1024 x 768 pixels) • Customized design 	<ul style="list-style-type: none"> • embedded projectors • versatile projectors • multimedia projectors • multimedia projectors • multimedia projectors • specialized

In addition to LCOS microdisplays, we have also developed a series of low-power video processors for accessory and embedded projector applications. These low-power video processors are essential for battery-operated mobile projectors, such as mobile phone projectors, camera projectors and notebook projectors. Some of them are available in the market now, and we expect more to come.

Power ICs

Himax Analogic, Inc., or Himax Analogic, our subsidiary, has two major product lines: power management ICs and LED drivers.

Power Management ICs

A power management IC integrates several power components to fulfill system power requirements. It may include step-up or step-down pulse width modulation, or PWM, DC-to-DC converters, low-dropout regulators, or LDO regulators, voltage detectors, operational amplifiers, level shifters, or other components. For panel module applications, a power management IC provides a reliable and precise voltage for source drivers, gate drivers, timing controllers, and panel cells. Moreover, its built-in over-temperature and over-current protections help prevent components from being damaged under certain abnormal conditions. As integrating an increasing number of components into a power management IC is likely to be a continuing trend, we believe power management ICs will continue to be critical components of a TFT-LCD panel module.

Product	Features
Integrated Multi-Channel Power Solutions for Notebooks	<ul style="list-style-type: none"> • Built-in power MOSFET • step-up PWM converter • charge pump regulator • LDO regulator • voltage detector • gate pulse modulator • Vcom operational amplifier • With/without LED drivers
Integrated Multi-Channel Power Solutions for Monitors	<ul style="list-style-type: none"> • Built-in power MOSFET • step-up PWM converter • HV LDO regulator • voltage detector • gate pulse modulator • programmable Vcom voltage / Vcom operational amplifier • level shifter
Integrated Multi-Channel Power Solutions for TVs	<ul style="list-style-type: none"> • Built-in power MOSFET • step-up PWM converter • step-down PWM converter • charge pump regulator • HV LDO regulator • voltage detector • gate pulse modulator • Vcom operational amplifier

LED Drivers

The LED driver provides sufficient voltage and current to light up LED diodes. Moreover, in addition to turning LEDs on, the driver has to keep the brightness of LEDs uniform and stable. Therefore, voltage boosting and current sensing are the core functional blocks of a white LED driver.

Product	Features
WLED Drivers for NB	<ul style="list-style-type: none">• 4.5V to 24V input voltage range• built-in 1.3MHz step-up PWM converter (max. boost voltage: 40V)• 8 constant current source channels• capable of driving up to 10 LEDs in serial for each channel
WLED Drivers for LED MNT	<ul style="list-style-type: none">• 5V to 33V input voltage range• built-in 2MHz step-up PWM controller• 8 constant current source channels• Up to 60mA per channel• 60V sustainable voltage for LED pins• capable of driving up to 16 LEDs in serial for each channel
WLED Drivers for LED TV	<ul style="list-style-type: none">• 8V to 40V input voltage range• 8-channel current sinks• Up to 80mA per channel• 65V sustainable voltage for LED pins

CMOS Image Sensor Products

Our CMOS image sensor products are designed primarily for camera-equipped mobile devices such as mobile phones and notebook computers with a focus on low light image and video quality. The CMOS image sensor product line is developed by our subsidiary, Himax Imaging. With the product launch of 3 mega pixel, 2 mega pixel and VGA sensors and system-on-chip products in 2009, we have secured customer designs in both mobile phones and notebook applications and moved these products into production phase. We continue to expand our product portfolio with the successful introduction of a 1/6" format 1.3 mega pixel and a new 1/5" format 2.0 mega pixel system-on-chip. All of our CMOS image sensors feature the BrightSense™ technology to achieve a better signal-to-noise ratio in the low light or video mode without a decreasing frame rate or increasing power consumption. Firstly embedded in our new 2.0 mega pixel sensor, ClearView™ technology provides the optical restoration engine to enhance the optical performance. We are committed to being a key player in this business with investments in experienced human resources, an efficient supply chain, and strategic technology developments and partnerships to further increase the performance and features of small and specially designed pixel sensors.

The following table sets forth the features of our CMOS image sensor products:

Product	Features
3.4MP BrightSense™ Color Image Sensor	<ul style="list-style-type: none">• 1/4" format color type• QXGA resolution at 15 frames per second, support for 720p HD and D1 resolution at 30 frames per second• ClearVision™ 80dB enhanced dynamic range mode compatible with standard color processing• on-chip 4-channel lens correction, defect removal
2.0MP ClearView™ Color Image Sensor	<ul style="list-style-type: none">• 1/5" format color type• ClearView™ boosts optical performance by lens compensation• UXGA YUV output at 15 frames per second, 720p HD resolution at 30 frames per second• Color processing pipeline including lens correction, defect correction, color de-mosaic, color correction, gamma control, saturation/hue adjustment, edge enhancement

Product	Features
2.0MP BrightSense™ System on Chip	<ul style="list-style-type: none"> • Multiple video formats including YUV422, RGB565, and ITU656 • 1/5" format color type • UXGA resolution at 18 frames per second, 720p HD resolution at 30 frames per second • on-chip 4-channel lens correction, defect removal • low noise, low power consumption
1.3MP BrightSense™ System on Chip	<ul style="list-style-type: none"> • 1/6" format color type • SXGA resolution at 20 frames per second, 720p HD resolution at 30 frames per second • color processing pipeline with dynamic adjustments based on luminance and light color temperature • low noise, low power consumption
VGA BrightSense™ System on Chip	<ul style="list-style-type: none"> • 1/10" format color type • VGA YUV output at 30 frames per second, QVGA at 60 frames per second • color processing pipeline including lens correction, defect correction, color de-mosaic, color correction, gamma control, saturation/hue adjustment, edge enhancement • automatic low light and frame rate control • multiple video formats including YUV422, RGB565, and ITU656

Wafer Level Optics Products

Wafer level optics are optical products manufactured using semiconductor process on wafers. This innovative approach enables wafer level optics to feature small-form factor and high temperature resistance, making the SMT reflow process possible. Currently, we offer products with resolutions from VGA up to 2 mega pixels mainly for portable electronic devices and notebooks.

Combining traditional optical lens design, precise mold control and semiconductor manufacturing expertise, our one-element and two-element VGA products have been adopted by certain tier-1 camera module makers and mobile phone brands. Our double-side manufacture process makes the lens structure more reductive and achieves better performance. In addition, our material is specially selected to increase the optical performance and stability of the lens.

The following table sets forth the features of our wafer level optics products:

Product	Features
CIF 1elements wafer level lens	<ul style="list-style-type: none"> • For 1/13" CIF CIS (3.0µm pixel pitch) • One-element and two-surface design for cost-competitive market • Double-side manufacture process • Already in mass production
VGA 1 element wafer level lens	<ul style="list-style-type: none"> • For 1/10" VGA CIS (2.2~2.25µm pixel pitch) • One-element and two-surface design for cost-competitive market • Double-side manufacture process • Already in mass production
VGA 2 elements wafer level lens	<ul style="list-style-type: none"> • For 1/10" VGA CIS (2.2~2.25µm pixel pitch) • Two-element and four-surface design for high-performance requirement • Double-side manufacture process • Lower profile

Product	Features
CIF 1elements wafer level lens	<ul style="list-style-type: none"> • For 1/13" CIF CIS (3.0µm pixel pitch) • One-element and two-surface design for cost-competitive market • Double-side manufacture process • Already in mass production
2M 2 elements wafer level lens	<ul style="list-style-type: none"> • For 1/5" 2M CIS (1.75µm pixel pitch) • Two-element and four-surface design for cost-competitive market • Double-side manufacture process

Core Technologies and Know-How

Driving System Technology. Through our collaboration with panel manufacturers, we have developed extensive knowledge of circuit design, TFT-LCD driving systems, high-voltage processes and display systems, all of which are important to the design of high-performance TFT-LCD display drivers. Our engineers have in-depth knowledge of the driving system technology, which is the architecture for the interaction between the source driver, gate driver, timing controller and power systems as well as other passive components. We believe that our understanding of the entire driving system has strengthened our design capabilities. Our engineers are highly skilled in designing power efficient and compact display drivers that enhance the performance of TFT-LCD. We are leveraging our know-how of display drivers and driving system technology to develop display drivers for panels utilizing other technologies such as OLED.

High-Voltage CMOS Circuit Design. Unlike most other semiconductors, TFT-LCD display drivers require a high output voltage of 3.3 to 50 volts. We have developed circuit design technologies using a high-voltage CMOS process that enables us to produce high-yield, reliable and compact drivers for high-volume applications. Moreover, our technologies enable us to keep the driving voltage at very high uniformity, which can be difficult to achieve when using standard CMOS process technology.

High-Bandwidth Interfaces. In addition to high-voltage circuit design, TFT-LCD display drivers require high bandwidth transmission for video signals. We have applied several high-speed interfaces, including TTL, RSDS, mini-LVDS, DETTL, turbo RSDS, MIPI and other customized interfaces, in our display drivers. Moreover, we are developing additional driver interfaces for special applications with optimized speed, lower EMI and higher system stability.

Die Shrink and Low Power Technologies. Our engineers are highly skilled in employing their knowledge of driving technology and high-voltage CMOS circuit design to shrink the die size of our display drivers while leveraging their understanding of driving technology and panel characteristics to design display drivers with low power consumption. Die size is an important consideration for applications with size constraints. Smaller die size also reduces the cost of the chip. Lower power consumption is important for many portable devices such as notebook computers, mobile handsets and consumer electronics products.

Customers

Our customers for display drivers are primarily panel manufacturers and mobile device module manufacturers, who in turn design and market their products to manufacturers of end-use products such as notebook computers, desktop monitors, televisions, mobile handsets and consumer electronics products. We may sell our products through agents or distributors for certain products or in certain regions. As of December 31, 2010, we sold our products to more than 200 customers. In 2008, 2009 and 2010, Chimei Innolux, including CMO, Innolux and TPO, and its affiliates, combined with Innolux and TPO before the merger, accounted for 67.9%, 67.5% and 52.8 % of our revenues, respectively, and CPT and its affiliates accounted for 3.9%, 2.5% and 5.8 % of our revenues, respectively. We expect that sales to Chimei Innolux and CPT and their respective affiliates, among other large customers, will continue to account for a substantial majority of our revenues in the near term.

Set forth below (in alphabetical order) are our ten largest customers (and their affiliates) based on revenues for the year ended December 31, 2010:

Chimei Innolux Corporation
Chunghwa Picture Tubes, Ltd.
Excel Asian Taiwan Co., Ltd.
HannStar Display Corporation
Happiness Commercial Co., Limited
Perfect Display Limited
Samsung Electronics Taiwan Co., Ltd.
Shanghai Avic Optoelectronics Co., Ltd.
Shanghai Tianma Microelectronics
Truly Semiconductors Ltd.

Certain of our customers provide us with a long-term (twelve-month) forecast plus three-month rolling non-binding forecasts and confirm orders in about one month ahead of scheduled delivery. In general, purchase orders are not cancellable by either party, although from time to time we and our customers have agreed to amend the terms of such orders.

Sales and Marketing

We focus our sales and marketing strategy on establishing business and technology relationships principally with TFT-LCD panel manufacturers and also with panel manufacturers using LTPS or OLED technologies and also with mobile display module and mobile handset manufacturers in order to work closely with them on future semiconductor solutions that align with their product road maps. Our engineers collaborate with our customers' engineers to create products that comply with their specifications and provide a high level of performance at competitive prices. Our end market for large-sized panels is concentrated around a limited number of major panel manufacturers. We also market our products directly to monitor, notebook and mobile device manufacturers so that our products can be qualified for their specifications and designed into their products.

We primarily sell our products through our direct sales teams located in Taiwan, China, South Korea and Japan. We also have dedicated sales teams for certain of our most important current or prospective customers. We have sales and technical support offices in Tainan, Taiwan. We have offices in Hsinchu and Taipei, Taiwan; Foshan, Fuqing, Ningbo, Beijing, Shanghai, Shenzhen and Suzhou, China; Yokohama and Matsusaka, Japan; Cheonan, South Korea; and Irvine, California, USA, all in close proximity to our customers. For certain products or regions we may sell our products through agents or distributors.

Our sales and marketing team possesses a high level of technical expertise and industry knowledge used to support a lengthy and complex sales process. This includes a highly trained team of product managers and field applications engineers. Our team is equipped with extensive strategic marketing experience and strong capability to identify market trends. We also provide technical support and assistance to potential and existing customers in designing, testing and qualifying display modules that incorporate our products. We believe that the depth and quality of this design support are key to improving customers' time-to-market and maintaining a high level of customer satisfaction.

Manufacturing

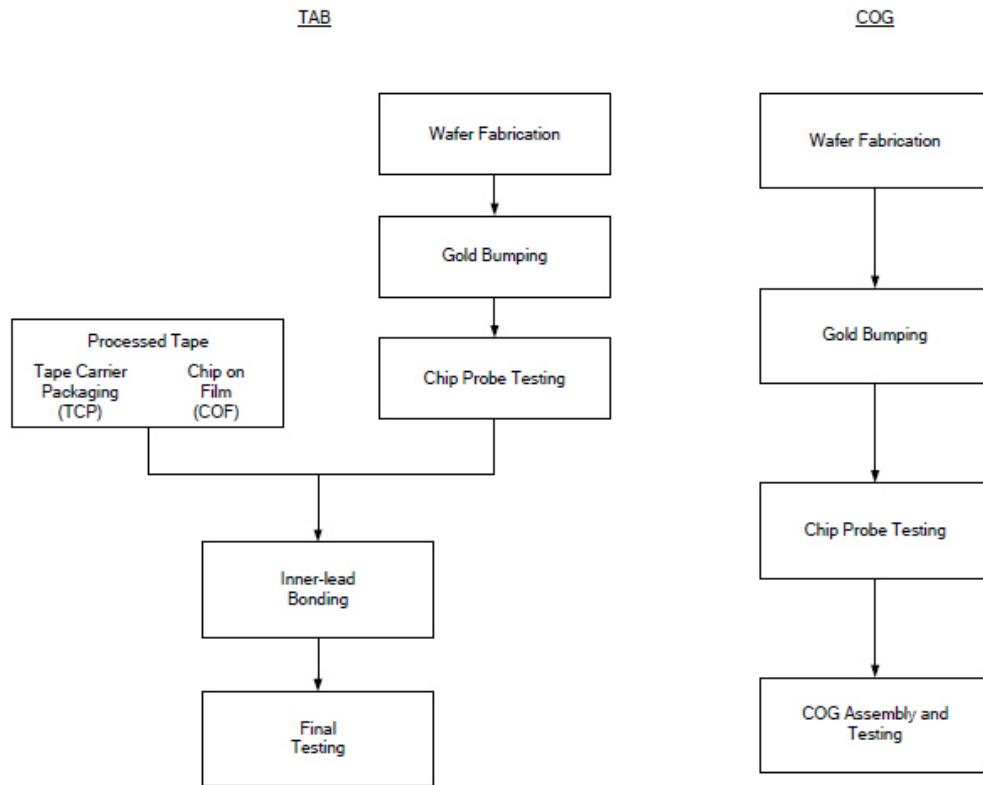
We operate primarily in a fabless business model that utilizes substantially third-party foundry and assembly and testing capabilities. We leverage our experience and engineering expertise to design high-performance semiconductors and rely on semiconductor manufacturing service providers for wafer fabrication, gold bumping, assembly and testing. We also rely largely on third-party suppliers of processed tape used in TAB packaging. We engage foundries with high-voltage CMOS process technology for our display drivers and engage assembly and testing houses that specialize in TAB and COG packages, thereby taking advantage of the economies of scale and the specialization of such semiconductor manufacturing service providers. Our primarily fabless model enables us to capture certain financial and operational benefits, including reduced manufacturing personnel, capital expenditures, fixed assets and fixed costs. It also gives us the flexibility to use the technology and service providers that are the most suitable for any given product.

We operate a small fab under Himax Display primarily for performing certain manufacturing processes for our LCOS microdisplays. Moreover, in order to further meet customers' demand for higher quality, lower cost, and faster time-to-market, we have established an in-house color filter facility under Himax Taiwan, which commenced small-scale shipments in 2010. The color filter line is a critical and unique process for our proprietary single-panel

color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our LCOS products and creates value for our customers. In addition, we have established an in-house wafer level optics facility under Himax Taiwan for the key process of our wafer level optics products, which commenced small-scale shipments in December 2009.

Manufacturing Stages

The diagram below sets forth the various stages in manufacturing display drivers according to the two different types of assembly utilized: TAB or COG. The assembly type depends primarily on the application and design of the panel and is determined by our customers.



Wafer Fabrication: Based on our design, the foundry provides us with fabricated wafers. Each fabricated wafer contains many chips, each known as a die.

Gold Bumping: After the wafers are fabricated, they are delivered to gold bumping houses where gold bumps are plated on each wafer. The gold bumping process uses thin film metal deposition, photolithography and electrical plating technologies. The gold bumps are plated onto each wafer to connect the die to the processed tape, in the case of TAB package, or the glass, in the case of COG package.

Chip Probe Testing: Each individual die is electrically tested, or probed, for defects. Dies that fail this test are discarded.

Assembly and Testing: Our display drivers use two types of assembly technology: TAB or COG. Display drivers for large-sized applications typically require TAB package types and to a lesser extent COG package types, whereas display drivers for mobile handsets and consumer electronics products typically require COG package types.

TAB Assembly

We use two types of TAB technologies: TCP and COF. TCP and COF packages are both made of processed tape that is typically 35mm or 48mm wide, plated with copper foil and has a circuit formed within it. TCP and COF packages differ, however, in terms of their chip connections. With TCP packages, a hole is punched through the processed tape in the area of the chip, which is connected to a flying lead made of copper. In contrast, with COF packages, the lead is mounted directly on the processed tape and there is no flying lead. In recent years, COF packages have become predominantly used in TAB technology.

- *Inner-Lead Bonding*: The TCP and COF assembly process involves grinding the bumped wafers into their required thickness and cutting the wafers into individual dies, or chips. An inner lead bonder machine connects the chip to the printed circuit processed tape and the package is sealed with resin at high temperatures.
- *Final Testing*: The assembled display drivers are tested to ensure that they meet performance specifications. Testing takes place on specialized equipment using software customized for each product.

COG Assembly

COG assembly connects display drivers directly to LCD panels without the need for processed tape. COG assembly involves grinding the tested wafers into their required thickness and cutting the wafers into individual dies, or chips. Each individual die is picked and placed into a chip tray and is then visually or auto-inspected for defects. The dies are packed within a tray in an aluminum bag after completion of the inspection process.

Quality Assurance

We maintain a comprehensive quality assurance system. Using a variety of methods from conducting rigorous simulations during the circuit design process to evaluating supplier performance at various stages of our products' manufacturing process, we seek to bring about improvements and achieve customer satisfaction. In addition to monitoring customer satisfaction through regular reviews, we implement extensive supplier quality controls so that the products we outsource achieve our high standards. Prior to engaging a third party as our supplier, we perform a series of audits on their operations, and upon engagement, we hold frequent quality assurance meetings with our suppliers to evaluate such factors as product quality, production costs, technological sophistication and timely delivery.

In November 2002, we received ISO 9001 certification, which was renewed in February 2011 and will expire in February 2014. In February 2006, we received ISO 14001 certification, which was renewed in February 2009 and will expire in February 2012. In addition, in March 2007, we received IECQ QC 080000 certification, which was renewed in March 2010 and will expire in March 2013, and OHSAS 18001 certification, which was renewed in February 2009 and will expire in February 2012.

Semiconductor Manufacturing Service Providers and Suppliers

Through our relationships with leading foundries, assembly, gold bumping and testing houses and processed tape suppliers, we believe we have established a supply chain that enables us to deliver high-quality products to our customers in a timely manner.

Access to semiconductor manufacturing service providers is critical as display drivers require high-voltage CMOS process technology and specialized assembly and testing services, all of which are different from industry standards. We have obtained our foundry services from TSMC, Vanguard, Macronix, Lite-on, Globalfoundries Singapore, SMIC and Maxchip in the past few years and have also recently established relationships with UMC and HHNEC. These are among a select number of semiconductor manufacturers that provide high-voltage CMOS process technology required for manufacturing display drivers. We engage assembly and testing houses that specialize in TAB and COG packages such as Chipbond and ChipMOS Technologies Inc.

We plan to strengthen our relationships with our existing semiconductor manufacturing service providers and diversify our network of such service providers in order to ensure access to sufficient cost-competitive and high-quality manufacturing capacity. We are selective in our choice of semiconductor manufacturing service providers. It takes a substantial amount of time to qualify alternative foundries, gold bumping, assembly and testing houses for

production. As a result, we expect that we will continue to rely on limited number of semiconductor manufacturing service providers for a substantial portion of our manufacturing requirements in the near future.

The table below sets forth (in alphabetical order) our principal semiconductor manufacturing service providers and suppliers:

Wafer Fabrication

Globalfoundries Singapore Pte., Ltd. (formerly Chartered Semiconductor Manufacturing Ltd.)
Lite-on Semiconductor Corp.
Macronix International Co., Ltd.
Maxchip Electronics Corp.
Shanghai Hua Hong NEC Electronics Company, Ltd.
Semiconductor Manufacturing International Corporation
Taiwan Semiconductor Manufacturing Company Limited
United Microelectronics Corporation
Vanguard International Semiconductor Corporation

Gold Bumping

Chipbond Technology Corporation⁽¹⁾
Chipmore Technology Co., Ltd.
ChipMOS Technologies Inc.

Processed Tape for TAB Packaging

Hitachi Cable Asia, Ltd. Taipei Branch
Mitsui Micro Circuits Taiwan Co., Ltd.
Samsung Techwin Co., Ltd.
Simpal Electronics Co., Ltd.
Sumitomo Metal Mining Package Material Co., Ltd.

Assembly and Testing

Ardentec Corporation
Advanced Semiconductor Engineering Inc.
Chipbond Technology Corporation⁽¹⁾
Chipmore Technology Co., Ltd.
ChipMOS Technologies Inc.
Global Testing Corporation
Greatek Electronics Inc.
Jiangsu Changjiang Electronics Technology Co., Ltd
Jiangyin Changdian Advanced Packaging Co., Ltd
King Yuan Electronics Co., Ltd.
Orient Semiconductor Electronics
Siliconware Precision Industries Co., Ltd.⁽²⁾
Taiwan IC Packaging Corporation
Xintec Inc

Chip Probe Testing

Ardentec Corporation
Chipbond Technology Corporation⁽¹⁾
Chipmore Technology Co., Ltd.
ChipMOS Technologies Inc.
Global Testing Corporation
Greatek Electronics Inc.
King Yuan Electronics Co., Ltd.
Siliconware Precision Industries Co., Ltd.

Note: (1) Chipbond Technology Corporation and International Semiconductor Technology Ltd. were both among our principal providers of gold bumping, assembly and testing and chip probe testing services in 2009. These two companies merged on April 1, 2010. Chipbond is the surviving company following the merger.

(2) Siliconware Precision Industries Co., Ltd. closed its gold bumping manufacturing service in July 2010.

Intellectual Property

As of March 31, 2011, we held a total of 974 patents, including 365 in Taiwan, 339 in the United States, 236 in China, 19 in Korea and 15 in Japan. The expiration dates of our patents range from 2019 to 2030. We also have a total of 883 pending patent applications in Taiwan, 604 in the United States and 484 in other jurisdictions, including

the PRC, Japan, Korea and Europe. In addition, we have registered “Himax” and our logo as a trademark and service mark in Taiwan, China, Europe, Singapore, Korea and Japan and the United States.

Competition

The markets for our products are, in general, intensely competitive, characterized by continuous technological change, evolving industry standards, and declining average selling prices. We believe key factors that differentiate among the competition in our industry include:

- customer relations;
- product performance;
- design customization;
- development time;
- product integration;
- technical services;
- manufacturing costs;
- supply chain management;
- timely delivery;
- economies of scale; and
- broad product portfolio.

We continually face intense competition from fabless display driver companies, including DongBu Electronics, Fitipower Integrated Technology, Inc., Ili Technology Corp., Lusem Co., Ltd, Novatek Microelectronics Corp., Orise Technology Co., Ltd., Raydium Semiconductor Corporation, Sitronix Technology Co., Ltd., Silicon Works Co. Ltd. and Solomon Systech Limited. We also face competition from integrated device manufacturers, such as MagnaChip Semiconductor Ltd., Panasonic Corporation, NEC Electronics Corporation, Renesas Technology Corp., Seiko Epson Corporation, Toshiba Corporation, Sanyo Electric Co., Ltd. and Rohm Co., Ltd. and panel manufacturers with in-house semiconductor design capabilities, such as Samsung Electronics Co., Ltd. and Sharp Corporation. The latter are both our competitors and customers.

Many of our competitors, some of which are affiliated or have established relationships with other panel manufacturers, have longer operating histories, greater brand recognition and significantly greater financial, manufacturing, technological, sales and marketing, human and other resources than we do. Additionally, we expect that as the flat panel semiconductor industry expands, more companies may enter and compete in our markets.

For touch controller ICs, we compete with worldwide suppliers, such as Atmel Corp., Cypress Semiconductor Corp. and Synpatics Inc.

Our television semiconductor solutions compete against solutions offered by a significant number of semiconductor companies including Broadcom Corporation, Huaya Microelectronics Inc., Mediatek Corp., MStar Semiconductor, Inc., Novatek Microelectronics Corp., NXP Semiconductor, Realtek Semiconductor Corp., STMicroelectronics, Sunplus Technology Co., Trident Microsystems, Inc. and Zoran Corporation, among others, some of which focus solely on video processors or digital TV solutions and others that offer a more diversified portfolio. For 2D to 3D conversion solutions, we face competition from Mediatek Corp. and MStar Semiconductor, Inc.

For LCOS products, we face competition primarily from digital lighting processing, or DLP, projectors incorporating Texas Instruments Incorporated’s digital light processing technology. We also face competition from a few other mobile projector technologies, including Micron Technology (which acquired Displaytech Inc. in 2009 for

its color-sequential ferroelectric liquid crystal on silicon, or FLCOS, projectors), Syndiant Inc., and Microvision, Inc., a company providing laser-scanning projector solutions.

For power ICs, we face competition from Taiwan companies including Richtek Technology Corporation, Global Mixed-mode Technology Inc., and Advanced Analog Technology, Inc. We also compete with worldwide suppliers such as Maxim Integrated Products, Inc., Texas Instruments Incorporated and Rohm Co., Ltd.

For CMOS image sensor products, we face competition primarily from Aptina Imaging Corporation, Omnivision Technologies Inc., Samsung Electronics Co. Ltd., Sony Corporation and STMicroelectronics.

For wafer level optics products, we face competition primarily from Visera Technologies Company Ltd., Heptagon, Anteryon, Nemotek Technologies and Q-Technology Ltd.

Insurance

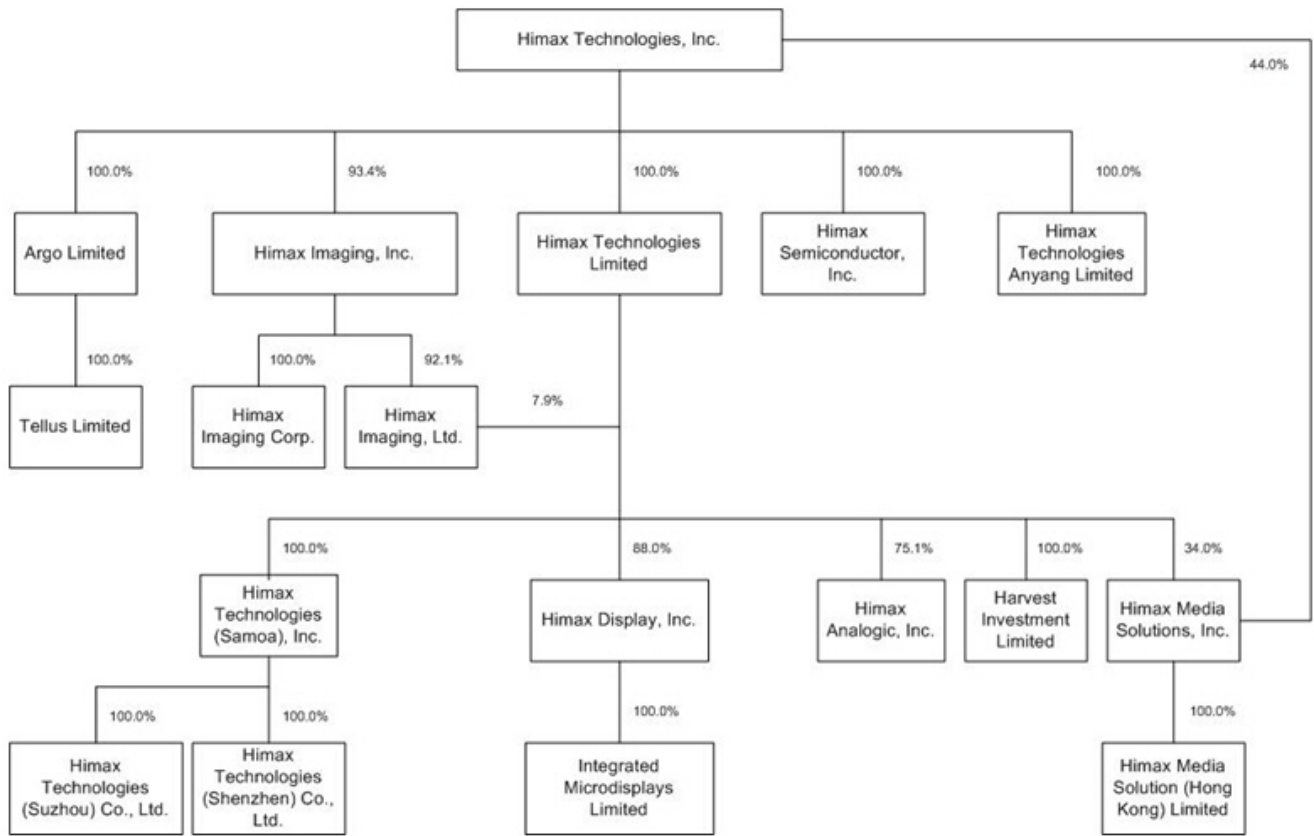
We maintain insurance policies on our buildings, equipment and inventories covering property damage and damage due to, among other events, fires, typhoons, earthquakes and floods. We maintain these insurance policies on our facilities and on transit of inventories. Additionally, we maintain director and officer liability insurance. We do not have insurance for business interruptions, nor do we have key person insurance.

Environmental Matters

The business of semiconductor design does not cause any significant pollution. Himax Taiwan maintains a color filter facility and a wafer level optics facility and Himax Display maintains a facility for our LCOS products, where we have taken the necessary steps to obtain the appropriate permits and believe that we are in compliance with the existing environmental laws and regulations in the ROC. We have entered into various agreements with certain customers whereby we have agreed to indemnify them, and in certain cases, their customers, for any claims made against them for hazardous material violations that are found in our products.

4.C. Organizational Structure

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries and affiliates as of March 31, 2011.



The following table sets forth summary information for our subsidiaries as of March 31, 2011.

Subsidiary	Main Activities	Jurisdiction of Incorporation	Total Paid-in Capital \$ (in millions)	Percentage of Our Ownership Interest
Himax Technologies Limited	IC design and sales	ROC	83.7	100.0%
Himax Technologies Anyang Limited	Sales	South Korea	0.5	100.0%
Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.)	IC design and sales	ROC	11.4	100.0%
Himax Technologies (Samoa), Inc.	Investments	Samoa	3.0	100.0% ⁽¹⁾
Himax Technologies (Suzhou) Co., Ltd.	Sales	PRC	1.0	100.0% ⁽²⁾
Himax Technologies (Shenzhen) Co., Ltd.	Sales	PRC	2.0	100.0% ⁽²⁾
Himax Display, Inc.	IC design, manufacturing and sales	ROC	39.1	88.0% ⁽¹⁾
Integrated Microdisplays Limited	IC design and sales	Hong Kong	1.1	88.0% ⁽³⁾
Himax Analogic, Inc.	IC design and sales	ROC	13.3	75.1% ⁽¹⁾
Himax Imaging, Inc.	Investments	Cayman Islands	18.5	93.4%
Himax Imaging, Ltd.	IC design and sales	ROC	25.9	93.9% ⁽⁴⁾
Himax Imaging Corp.	IC design and sales	California, USA	8.2	93.4% ⁽⁵⁾
Argo Limited	Investments	Cayman Islands	9.0	100.0%
Tellus Limited	Investments	Cayman Islands	9.0	100.0% ⁽⁶⁾
Himax Media Solutions, Inc.	TFT-LCD television and monitor chipset operations	ROC	34.2	78.0% ⁽⁷⁾
Himax Media Solutions (Hong Kong) Limited	Investments	Hong Kong	0.0 ⁽⁹⁾	78.0% ⁽⁸⁾
Harvest Investment Limited	Investments	ROC	1.6	100.0% ⁽¹⁾

(1) Indirectly, through our 100.0% ownership of Himax Technologies Limited.

(2) Indirectly, through our 100.0% ownership of Himax Technologies (Samoa), Inc.

(3) Indirectly, through our 88.0% ownership of Himax Display, Inc.

(4) Indirectly, as to 92.1% through our 93.4% ownership of Himax Imaging, Inc. and as to 7.9% through our 100.0% ownership of Himax Technologies Limited.

(5) Indirectly, through our 93.4% ownership of Himax Imaging, Inc.

(6) Indirectly, through our 100.0% ownership of Argo Limited.

(7) Directly, as to 44.0%, and indirectly, as to 34.0% through our 100.0% ownership of Himax Technologies Limited.

(8) Indirectly, through our 78.0% ownership of Himax Media Solutions, Inc.

(9) Total paid-in capital is HK\$10,000.

4.D. Property, Plants and Equipment

Our corporate headquarters are located at a 22,172 square meter facility within the Tree Valley Industrial Park in Tainan, Taiwan. The facility houses our research and development, engineering, sales and marketing, operations and general administrative staff. Construction of the facility was completed in October 2006, and the total land and construction costs amounted to approximately \$25.8 million.

We also lease office space in Taipei and Hsinchu, Taiwan; Suzhou, Shenzhen, Foshan, Fuqing, Beijing, Shanghai and Ningbo, China; Yokohama and Matsusaka, Japan; Cheonan, South Korea; and Irvine, California, USA. In June 2008, we completed the relocation of the Taipei offices of our company, Himax Media Solutions and Himax Analogic. The lease contracts may be renewed upon expiration.

We own and operate under Himax Display a fab with 3,040 square meters of floor space in a building leased from Chimei Innolux. We have also established under Himax Taiwan an in-house wafer level optics facility for the key process of our products, with 1,171 square meters of floor space in a building leased from Chimei Innolux, which commenced small-scale shipments in December 2009. We recently plan to rebuild certain facilities for LCOS and wafer level optics products located at our headquarters in Tainan, Taiwan, with expected total expenditure of approximately \$28 million. In addition, Himax Taiwan owns and operates a fab with 1,431 square meters of floor space in a building leased from Chimei Innolux in Tainan, where it established an in-house color filter facility. The color filter line is a critical and unique process for our proprietary single-panel color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our LCOS products and creates value for our customers.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

Overview

We design, develop and market semiconductors that are critical components of flat panel displays. Our principal products are display drivers for large-sized 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, digital cameras, mobile gaming devices, portable DVD players, digital photo frame and car navigation displays. We also offer display drivers for panels using OLED technology and LTPS technology. In addition, we are expanding our product offerings to include non-driver products such as timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors, wafer level optics products, infinitely color technology and 2D to 3D conversion solutions. For display drivers and display-related products, our customers are panel manufacturers, agents or distributors, module manufacturers and assembly houses. We also work with camera module manufacturers, optical engine manufacturers, television system manufacturers for various non-driver products.

We commenced operations through our predecessor, Himax Taiwan, in June 2001. We must, among other things, continue to expand and diversify our customer base, broaden our product portfolio, achieve additional design wins and manage our costs to partially mitigate declining average selling prices in order to maintain our profitability. Moreover, we must continue to address the challenges of being a growing technology company, including hiring and retaining managerial, engineering, operational and financial personnel and implementing and improving our existing administrative, financial and operations systems.

We operate primarily in a fabless business model that utilizes substantially third-party foundry and assembly and testing capabilities. We leverage our experience and engineering expertise to design high-performance semiconductors and rely largely on third-party semiconductor manufacturing service providers for wafer fabrication, gold bumping, assembly and testing. We are able to take advantage of the economies of scale and the specialization

of such semiconductor manufacturing service providers. Our primarily fabless model enables us to capture certain financial and operational benefits, including reduced manufacturing personnel, capital expenditures, fixed assets and fixed costs. It also gives us the flexibility to use the technology and service providers that are the most suitable for any given product.

As our semiconductors are critical components of flat panel displays, our industry is closely linked to the trends and developments of the flat panel display industry, in particular, the TFT-LCD panel segment. The majority of our revenues in 2010 were derived from sales of display drivers that were eventually incorporated into TFT-LCD panels. We expect display drivers for TFT-LCD panels to continue to be our primary products. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions. The average selling prices of TFT-LCD panels could decline for numerous reasons, which could in turn result in downward pricing pressure on our products. See “Item 3.D. Key Information—Risk Factors—Risks Relating to Our Financial Condition and Business—We derive substantially all of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclicity and price fluctuations could negatively impact our business or results of operations.”

Factors Affecting Our Performance

Our business, financial position and results of operations, as well as the period-to-period comparability of our financial results, are significantly affected by a number of factors, some of which are beyond our control, including:

- average selling prices;
- unit shipments;
- product mix;
- design wins;
- cost of revenues and cost reductions;
- supply chain management;
- share-based compensation expenses;
- signing bonuses; and
- tax credits and exemptions.

Average Selling Prices

Our performance is affected by the selling prices of each of our products. We price our products based on several factors, including manufacturing costs, life cycle stage of the product, competition, technical complexity of the product, size of the purchase order and our relationship with the customer. We typically are able to charge the highest price for a product when it is first introduced. Although from time to time we are able to raise our selling prices during times of supply constraints, our average selling prices typically decline over a product’s life cycle, which may be offset by changes in conditions in the semiconductor industry such as constraints in foundry capacity. The general trend in the semiconductor industry is for the average selling prices of semiconductors to decline over a product’s life cycle due to competition, production efficiencies, emergence of substitutes and technological obsolescence. Our cost reduction efforts also contribute to this decline in average selling prices. See “—Cost of Revenues and Cost Reductions.”

Our average selling prices are also affected by the cyclicity of the TFT-LCD panel industry. Any downward pricing pressure on TFT-LCD panel manufacturers could result in similar downward pricing pressure on us. During periods of declining average selling prices for TFT-LCD panels, TFT-LCD panel manufacturers may also decrease capacity utilization and sell fewer panels, which could depress demand for our display drivers. For example, in the second half of 2008, as a result of the severe economic downturn and the weakening of consumer spending, there was an over-supply of large-sized TFT-LCD panels. Many TFT-LCD panel manufacturers experienced a decrease in prices of large-sized TFT-LCD panels and reduced capacity utilization significantly, which in turn resulted in strong

downward pricing pressure on and a decrease in demand for our products, particularly in late 2008 and early 2009. While there was a rebound in demand for TFT-LCD panels in the second quarter of 2009, the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. Our product pricing remained weak in 2009. In the second half of 2010, the TFT-LCD panel industry suffered again from an over-supply due to a high inventory level built up previously, which significantly decreased our sales to the TFT-LCD panel industry. In addition, our average selling prices are affected by the size and bargaining power of our customers. The merger of CMO, Innolux and TPO could negatively affect our ability to maintain, if not raise, our selling prices. Our average selling prices are also affected by the packaging type our customers choose as well as the level of product integration. However, the impact of declining average selling prices on our profitability might be offset or mitigated to a certain extent by increased volume, as lower prices may then stimulate demand and thereby drive sales.

Unit Shipments

Our performance is also affected by the number of semiconductors we ship, or unit shipments. As our display drivers are critical components of flat panel displays, our unit shipments depend primarily on our customers' panel shipments among other factors. Our unit shipments have grown since our inception primarily as a result of our increased market share with certain major customers and their increased shipments of panels. Our growth in unit shipments also reflected the demand for higher resolution panels which typically require more display drivers. However, the development of higher channel display drivers or new technologies, if successful, could potentially reduce the number of display drivers required for each panel while achieving the same resolution. If such technologies become commercially available, the market for our display drivers will be reduced and we could experience a decline in revenue and profit.

Product Mix

The proportion of our revenues that is generated from the sale of different product types, also referred to as product mix, also affects our average selling prices, revenues and profitability. Our display driver products vary depending on, among other things, the number of output channels, the level of integration and the package type. Variations in each of these specifications could affect the average selling prices of such products. For example, the trend for display drivers for use in large-sized panels is toward products with a higher number of channels, which typically command higher average selling prices than traditional products with a lower number of channels. However, panels that use higher-channel display drivers typically require fewer display drivers per panel. As a result, our profitability will be affected adversely to the extent that the decrease in the number of display drivers required for each panel is not offset by increased total unit shipments and/or higher average selling prices for display drivers with a higher number of channels. The level of integration of our display drivers also affects average selling prices, as more highly integrated chips typically have higher selling prices. Additionally, average selling prices are affected by changes in the package types used by our customers. For example, the chip-on-glass package type typically has lower material costs because no processed tape is required. Moreover, our different non-driver products vary in average selling prices and costs. The proportion of non-driver business would also affect our financial position and results of operations,

Design Wins

Achieving design wins is important to our business, and it affects our unit shipments. Design wins occur when a customer incorporates our products into their product designs. There are numerous opportunities for design wins, including, but not limited to, when panel manufacturers:

- introduce new models to improve the cost and/or performance of their existing products or to expand their product portfolio;
- establish new fabs and seek to qualify existing or new components suppliers; and
- replace existing display driver companies due to cost or performance reasons.

Design wins are not binding commitments by customers to purchase our products. However, we believe that achieving design wins is an important performance indicator. Our customers typically devote substantial time and resources to designing their products as well as qualifying their component suppliers and their products. Once our products have been designed into a system, the customer may be reluctant to change its component suppliers due to

the significant costs and time associated with qualifying a new supplier or a replacement component. Therefore, we strive to work closely with current and prospective customers in order to anticipate their requirements and product road maps and achieve additional design wins.

Cost of Revenues and Cost Reductions

We strive to control our cost of revenues. Our cost of revenues as a percentage of total revenues in 2008, 2009 and 2010 was 75.5%, 79.5% and 79.0%, respectively. In 2010, as a percentage of Himax Taiwan's total manufacturing costs, the cost of wafer fabrication was 57.7%, the cost of processed tape was 11.8%, and the cost of assembly and testing was 30.1%. Our cost of revenues may increase as a result of an increase in raw material prices, any failure to obtain sufficient foundry, assembly or testing capacity or any shortage of processed tape or failure to improve the factory utilization rate or production yield. As a result, our ability to manage our wafer fabrication costs, costs for processed tape and assembly and testing costs is critical to our performance. In addition, to mitigate declining average selling prices, we aim to reduce unit costs by, among other things:

- improving product design (e.g., having smaller die size allows for a larger number of dies on each wafer, thereby reducing the cost of each die);
- improving manufacturing yields through our close collaboration with our semiconductor manufacturing service providers; and
- achieving better pricing from a diversified pool of semiconductor manufacturing service providers and suppliers, reflecting our ability to leverage our scale, volume requirements and close relationships as well as our strategy of sourcing from multiple service providers and suppliers.

Our cost of revenues is also affected by any changes in the competitive landscape and the bargaining power of our suppliers. There has been an increased level of industry consolidation among our suppliers since late 2009. As announced in September 2009 and completed in January 2010, Chartered Semiconductor Manufacturing Ltd., one of our foundry service providers, merged with Globalfoundries, one of the world's largest semiconductor foundries. As announced in December 2009, Chipbond and IST, both among our principal providers of gold bumping, assembly and testing and chip probe testing services, also recently completed their merger on April 1, 2010. Such industry consolidation could result in an increase in bargaining power of our suppliers and increase the unit cost of products and services provided by them.

Supply Chain Management

Due to the competitive nature of the flat panel display industry and our customers' need to maintain high capacity utilization in order to reduce unit costs per panel, any delays in the delivery of our products could significantly disrupt our customers' operations. To deliver our products on a timely basis and meet the quality standards and technical specifications our customers require, we must have assurances of high-quality capacity from our semiconductor manufacturing service providers. We therefore strive to manage our supply chain by maintaining close relationships with our key semiconductor manufacturing service providers and strive to provide credible forecasts of capacity demand. The foundry and processed tape supply are expected to be tight in 2011. Any disruption to our supply chain could adversely affect our performance and could result in a loss of customers as well as potentially damage our reputation.

Share-Based Compensation Expenses

Our results of operations have been affected by, and we expect our results of operations to continue to be affected by, our share-based compensation expenses, which consist of charges taken relating to grants of mainly RSUs as well as nonvested shares to employees.

We adopted a long-term incentive plan in October 2005 which permits the grant of options or RSUs to our employees and non-employees where each unit represents two ordinary shares. The actual awards will be determined by our compensation committee. We recorded share-based compensation expenses under the long-term incentive plan totaling \$20.8 million, \$14.1 million and \$11.5 million in 2008, 2009 and 2010, respectively. See "—Critical Accounting Policies and Estimates—Share-Based Compensation Expenses." Of the total share-based compensation expenses recognized, \$12.7 million, \$6.5 million and \$5.9 million in 2008, 2009 and 2010,

respectively, were settled in cash. We have applied Accounting Standards Codification, or ASC, ASC 718, *Compensation—Stock Compensation*, to account for our share-based compensation plans. ASC 718 requires companies to measure and recognize compensation expense for all share-based payments at fair value. The long-term incentive plan expired in October 2010. We are still determining whether to adopt other share-based compensation plans.

Set forth below is a summary of our historical share-based compensation plans for the years ended December 31, 2008, 2009 and 2010 as reflected in our consolidated financial statements.

Restricted Share Units (RSUs). We adopted a long-term incentive plan in October 2005.

We made grants of 7,108,675 RSUs to our employees on September 29, 2008. The vesting schedule for such RSU grants is as follows: 60.64% of the RSU grants vested immediately and was settled by cash in the amount of \$12.7 million on the grant date, with the remainder vesting equally on each of September 30, 2009, 2010 and 2011, which has been or will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 3,577,686 RSUs to our employees on September 28, 2009. The vesting schedule for such RSU grants is as follows: 55.96% of the RSU grants vested immediately and was settled by cash in the amount of \$6.5 million on the grant date, with the remainder vesting equally on each of September 30, 2010, 2011 and 2012, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 3,488,952 RSUs to our employees on September 28, 2010. The vesting schedule for such RSU grants is as follows: 68.11% of the RSU grants vested immediately and was settled by cash in the amount of \$5.9 million on the grant date, with the remainder vesting equally on each of September 30, 2011, 2012 and 2013, which will be settled by our ordinary shares, subject to certain forfeiture events.

The amount of share-based compensation expense with regard to the RSUs granted to our employees on September 29, 2008, September 28, 2009 and September 28, 2010 was \$2.95, \$3.25 and \$2.47 per ADS, respectively, which was based on the trading price of our ADSs on that day.

A portion of the RSUs were granted in 2005 before our initial public offering and vested in 2008. Determining the fair value of our ordinary shares prior to our initial public offering requires making complex and subjective judgments regarding projected financial and operating results, our business risks, the liquidity of our shares and our operating history and prospects. We used the discounted cash flow approach in conjunction with the market value approach by assigning a different weight to each of the approaches to estimate the value of our company when the RSUs were granted. The discounted cash flow approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The market value approach incorporates certain assumptions including the market performance of comparable companies as well as our financial results and growth trends to derive our total equity value. The assumptions used in deriving the fair value are consistent with our business plan. These assumptions include: no material changes in the existing political, legal, fiscal and economic conditions in Taiwan; our ability to retain competent management, key personnel and technical staff to support our ongoing operation; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rate. If a different discount rate were used, the valuation and the amount of share-based compensation would have been different because the fair value of the underlying ordinary shares for the RSUs granted would be different.

Signing Bonuses

To complement our share-based compensation scheme, Himax Taiwan adopted a signing bonus system for newly recruited employees in the second half of 2006.

Employees are entitled to receive signing bonuses upon (i) the expiration of their probationary period and a satisfactory review by their supervisor, and (ii) execution of a formal "retention and signing bonus agreement." If an employee leaves within 18 months (for any reason at all) of having commenced employment with Himax Taiwan, 100% of the signing bonus will be returned. If an employee leaves after 18 months but prior to 36 months after commencing employment with Himax Taiwan, 50% of the signing bonus will be returned.

Due to the impact of the global economic downturn, the signing bonus program was cancelled since 2009 by Himax Taiwan and its six subsidiaries that adopted such program. Currently, signing bonuses are only awarded to certain employees on a case-by-case basis.

In 2008, 2009 and 2010, Himax Taiwan paid \$2.7 million, \$0.5 million and nil, respectively, in signing bonuses which were charged to earnings. Besides Himax Taiwan, signing bonuses were adopted by six subsidiaries in 2008, 2009 and 2010, and a total of \$1.0 million, \$0.4 million and \$0.1 million, respectively, were paid to certain employees of our subsidiaries.

Tax Credits and Exemptions

Our results of operations have been affected by, and we expect our results of operations to continue to be affected by, tax credits and income tax exemptions available to us.

The ROC Statute for Upgrading Industries, which expired at the end of 2009, entitled companies to tax credits for expenses relating to qualifying research and development, personnel training and purchases of qualifying machinery. The tax credits could be applied within a five-year period. The amount of tax credit that could be applied in any year is limited to 50% of the income tax payable for that year (with the exception of the final year when the remainder of the tax credit may be applied without limitation to the total amount of the income tax). Under the ROC Statute for Upgrading Industries, Himax Taiwan was granted tax credits by the ROC Ministry of Finance at rates set at a certain percentage of the amount utilized in qualifying research and development, personnel training expenses and purchases of qualifying machinery. The balance of unused investment tax credits totaled \$46.8 million, \$55.3 million and \$55.0 million as of December 31, 2008, 2009 and 2010, respectively. 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. Compared to the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation provides for a smaller amount of tax credits. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of 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. Therefore, the amount of tax credits that could be applied under the ROC Statute for Upgrading Industries and the Statute for Industrial Innovation is limited at 50% of the income tax payable. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward. As a result, the tax credits that we received decreased significantly to \$3.7 million in 2010 compared to \$13.8 million in 2009.

The ROC Statute for Upgrading Industries provided to companies deemed to be operating in important or strategic industries a five-year tax exemption for income attributable to expanded production capacity or newly developed technologies. Such expanded production capacity or newly developed technologies must be funded in whole or in part from either the initial capital investment made by a company's shareholders, a subsequent capital increase or a capitalization of a company's retained earnings. As a result of this statute, income attributable to certain of Himax Taiwan's expanded production capacity is tax exempt for a period of five years, effective on April 1, 2004, January 1, 2006 and January 1, 2008 and expiring on March 31, 2009, December 31, 2010 and December 31, 2012, respectively. In addition, beginning January 1, 2009, Himax Semiconductor has also become entitled to a five-year tax exemption expiring on December 31, 2013. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we can continue to enjoy the five-year tax holiday since the relevant investment plans were approved by the ROC tax authority before the expiration of the Statute. The effect of such tax exemption was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$25.2 million, \$0.07 and \$0.07, respectively, for the year ended December 31, 2008, \$9.4 million, \$0.03 and \$0.03, respectively, for the year ended December 31, 2009 and \$3.6 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2010. As the tax exemptions that expired on March 31, 2009 and December 31, 2010 account for a substantial portion of our total tax-exempted income under the ROC Statute for Upgrading Industries, our income tax expenses had increased significantly in 2009 and 2010 and may continue to increase significantly in the future. No such tax exemption is provided for under the newly adopted Statute for Industrial Innovation.

Description of Certain Statements of Income Line Items

Revenues

Historically, we have generated revenues from sales of display drivers for large-sized applications, display drivers for mobile handsets and display drivers for consumer electronics products. In addition, our product portfolio includes operational amplifiers, timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors and wafer level optics products.

Display drivers for large-sized applications have been the largest source of revenues for us, but we expect display drivers for mobile handsets applications, display drivers for consumer electronics applications and other non-driver products to increase in revenue contribution in the future. Our revenues generated from sales of display drivers for large-sized applications decreased in 2009 and 2010 both in absolute amount and as a percentage of our total revenues, primarily due to the significant decrease in sales to Chimei Innolux, or prior to the merger, CMO as a result of the impact of the global economic downturn in 2009 and the change of purchase policy by Chimei Innolux to diversify its display driver supply base in 2010. Our revenues generated from sales of each of display drivers for mobile handsets applications, display drivers for consumer electronics applications and other non-driver products increased in 2009 and 2010 both in absolute amount and as a percentage of our total revenues, primarily due to our increased market share for certain products, the larger market size for certain applications and a wider market adoption for some non-driver products.

The following table sets forth, for the periods indicated, our revenues by amount and our revenues as a percentage of revenues by each product line:

	Year Ended December 31,					
	2008		2009		2010	
	Amount	Percentage of Revenues	Amount	Percentage of Revenues	Amount	Percentage of Revenues
	(in thousands, except percentages)					
Display drivers for large-sized applications	\$ 651,504	78.2%	\$ 493,513	71.3%	\$ 366,492	57.0%
Display drivers for mobile handsets applications	57,274	6.9	69,081	10.0	119,623	18.6
Display drivers for consumer electronics applications	81,866	9.8	83,527	12.1	103,942	16.2
Others ⁽¹⁾	42,155	5.1	46,260	6.6	52,635	8.2
Total	\$ 832,799	100.0%	\$ 692,381	100.0%	\$ 642,692	100.0%

Note: (1) Includes, among other things, timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors, wafer level optics products and 2D to 3D conversion solutions.

A limited number of customers account for substantially all our revenues. Chimei Innolux and its affiliates (see Note (1) in the table below, which takes into account the effect of merger of CMO, Innolux and TPO in March 2010) accounted for over half of our revenues in each of 2008, 2009 and 2010. While sales to Chimei Innolux and its affiliates decreased significantly in absolute terms in 2009 due to the impact of the global economic downturn, the percentage of our total revenues generated from sales to Chimei Innolux and its affiliates declined slightly in 2009, primarily as a result of the significant decrease in sales in 2009 to SVA-NEC, our third largest customer in 2008. In 2010, sales to Chimei Innolux and its affiliates further decreased significantly both in absolute amount and as a percentage of our total revenues, primarily due to the change of purchase policy by Chimei Innolux to diversify its display driver supply base. The table below sets forth, for the periods indicated, our revenues generated from our most significant customers (including their respective affiliates) and such revenues as a percentage of our total revenues:

	Year Ended December 31,					
	2008		2009		2010	
	Amount	Percentage of Revenues	Amount	Percentage of Revenues	Amount	Percentage of Revenues
	(in thousands, except percentages)					
Chimei Innolux and its affiliates ⁽¹⁾	\$ 565,550	67.9%	\$ 467,388	67.5%	\$ 339,220	52.8%
CPT and its affiliates	32,673	3.9	17,023	2.5	37,067	5.8
Samsung and its affiliates	54,138	6.5	50,184	7.2	29,983	4.7
SVA-NEC	52,101	6.3	3,365	0.5	-	-
Others	128,337	15.4	154,421	22.3	236,422	36.7
Total	\$ 832,799	100.0%	\$ 692,381	100.0%	\$ 642,692	100.0%

Note: (1) Represents combined revenues from CMO, Innolux and TPO and their respective affiliates prior to the merger in March 2010 and Chimei Innolux and its affiliates after the merger for the periods indicated.

SVA-NEC accounted for approximately 6.3%, 0.5% and nil of our revenues in 2008, 2009 and 2010, respectively. As a result of its substantial reduction in fab utilization and its weak financial condition, our sales to SVA-NEC have decreased significantly since the fourth quarter of 2008 as compared to prior years. Beginning in March 2009, we have also required SVA-NEC to obtain guarantees by banks or third party customers in favor of us for the majority of new purchase orders. We discontinued our sales to SVA-NEC in 2010 because SVA-NEC has ceased to operate its business since 2010.

The global TFT-LCD panel market is highly concentrated, with only a limited number of TFT-LCD panel manufacturers producing large-sized TFT-LCD panels in high volumes. We sell large-sized panel display drivers to many of these TFT-LCD panel manufacturers. Our revenues, therefore, will depend on our ability to capture an increasingly larger percentage of each panel manufacturer's display driver requirements.

We derive substantially all of our revenues from sales to Asia-based customers whose end products are sold worldwide. In 2008, 2009 and 2010, approximately 77.6%, 79.2% and 76.7% of our revenues, respectively, were from customers headquartered in Taiwan. We believe that substantially all of our revenues will continue to be from customers located in Asia, where almost all of the TFT-LCD panel manufacturers and mobile device module manufacturers are located. As a result of the regional customer concentration, we expect to continue to be particularly subject to economic and political events and other developments that affect our customers in Asia. A substantial majority of our sales invoices are denominated in U.S. dollars.

Costs and Expenses

Our costs and expenses consist of cost of revenues, research and development expenses, general and administrative expenses, bad debt expense, sales and marketing expenses and share-based compensation expenses.

Cost of Revenues

The principal items of our cost of revenues are:

- cost of wafer fabrication;
- cost of processed tape used in TAB packaging;
- cost of gold bumping, assembly and testing; and
- other costs and expenses.

We outsource the manufacturing of our semiconductors and semiconductor solutions to semiconductor manufacturing service providers. The costs of wafer fabrication, gold bumping, assembly and testing depend on the availability of capacity and demand for such services. The wafer fabrication industry, in particular, is highly cyclical, resulting in fluctuations in the price of processed wafers depending on the available foundry capacity and the demand for foundry services.

Research and Development Expenses

Research and development expenses consist primarily of research and development employee salaries, including related employee welfare costs, costs associated with prototype wafers, processed tape, mask and tooling sets, depreciation on research and development equipment and acquisition-related charges. We believe that we will need to continue to spend a significant amount on research and development in order to remain competitive. We expect to continue increasing our spending on research and development in absolute dollar amounts in the future as we continue to increase our research and development headcount and associated costs to pursue additional product development opportunities.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries of general and administrative employees, including related employee welfare costs, depreciation on buildings, office furniture and equipment, rent and professional fees. We anticipate that our general and administrative expenses will increase in absolute dollar

amounts as we expand our operations, hire additional administrative personnel, incur depreciation expenses in connection with our headquarters at the Tree Valley Industrial Park, incur professional fees for filing patent applications and incur additional compliance costs required of a publicly listed company in the United States.

Bad Debt Expense

We evaluate our outstanding accounts receivable on a monthly basis for collectibility purposes. In establishing the required allowance, we consider our historical collection experience, current receivable aging and the current trend in the credit quality of our customers. In 2008 and 2009, we recorded bad debt expense of \$25.3 million and \$0.2 million, respectively. In 2010, we recorded recovery of bad debt expense of \$8.8 million. Our bad debt expense in 2008 was primarily from the uncollected accounts receivable outstanding from SVA-NEC, of which \$8.8 million was recovered in 2010.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of salaries of sales and marketing employees, including related employee welfare costs, amortization expenses for the acquired intangible assets related to the acquisition of Wisepal in 2007, travel expenses and product sample costs. We expect that our sales and marketing expenses will increase in absolute dollar amounts over the next several years. However, we believe that as we continue to achieve greater economies of scale and operating efficiencies, our sales and marketing expenses may decline over time as a percentage of our revenues.

Share-Based Compensation Expenses

Our share-based compensation expenses consist of various forms of share-based compensation that we have historically issued to our employees and consultants, as well as share-based compensation issued to employees, directors and service providers under our 2005 long-term incentive plan. We allocate such share-based compensation expenses to the applicable cost of revenues and expense categories as related services are performed. See note 14 to our consolidated financial statements. Under the long-term incentive plan, we granted RSUs on December 30, 2005 to our employees and directors and again on September 29, 2006, September 26, 2007, September 29, 2008, September 28, 2009 and September 28, 2010 to our employees. Share-based compensation expenses recorded under the long-term incentive plan totaled \$20.8 million, \$14.1 million and \$11.5 million in 2008, 2009 and 2010, respectively. See “—Critical Accounting Policies and Estimates—Share-Based Compensation” for further discussion of the accounting of such expenses.

Income Taxes

Since we and our direct and indirect subsidiaries are incorporated in different jurisdictions, we file separate income tax returns. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands. We recognize income taxes at the applicable statutory rates in accordance with the jurisdictions where our subsidiaries are located and as adjusted for certain items including accumulated losses carried forward, non-deductible expenses, research and development tax credits, certain tax holidays, as well as changes in our deferred tax assets and liabilities.

Our effective income tax rate was (13.6)% in 2008, 18.1% in 2009 and 17.6% in 2010, respectively.

ROC law offers preferential tax treatments to industries that are encouraged by the ROC government. The ROC Statute for Upgrading Industries, which expired at the end of 2009, entitled companies to tax credits for expenses relating to qualifying research and development and personnel training expenses and purchases of qualifying machinery. The tax credits could be applied within a five-year period. The amount from the tax credit that could be applied in any year (with the exception of the final year when the remainder of the tax credit may be applied without limitation to the total amount of the income tax payable) is limited to 50% of the income tax payable for that year. Under the ROC Statute for Upgrading Industries, Himax Taiwan, Himax Semiconductor, Himax Display, Himax Analogic, Himax Media Solutions and Himax Imaging, Ltd. were granted tax credits by the ROC Ministry of Finance at rates set at a certain percentage of the amount utilized in qualifying research and development and personnel training expenses. The balance of unused investment tax credits totaled \$46.8 million, \$55.3 million and \$55.0 million as of December 31, 2008, 2009 and 2010, respectively. 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. Compared to the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation provides for a smaller amount of tax credits. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of 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. Therefore, the amount of tax credits that could be applied under the ROC Statute for Upgrading Industries and the Statute for Industrial Innovation is limited at 50% of the income tax payable. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward. As a result, the tax credits that we received decreased significantly to \$3.7 million in 2010 compared to \$13.8 million in 2009.

In addition, under the ROC Statute for Upgrading Industries and the applicable grandfather clause, income attributable to certain of Himax Taiwan's expanded production capacity is tax exempt for a period of five years, effective on April 1, 2004, January 1, 2006 and January 1, 2008 and expiring on March 31, 2009, December 31, 2010 and December 31, 2012, respectively. In addition, beginning January 1, 2009, Himax Semiconductor is also entitled to a five-year tax exemption expiring on December 31, 2013. Based on the ROC statutory income tax rate of 17%, the effect of these tax exemptions on net income and basic and diluted earnings per ordinary share attributable to our stockholders for the year ended December 31, 2010 had been an increase of \$3.6 million, \$0.01 and \$0.01, respectively. The tax exemptions that expired on March 31, 2009 and December 31, 2010 account for a substantial proportion of our total tax-exempted income under the ROC Statute for Upgrading Industries. No such tax exemption is provided for under the newly adopted Statute for Industrial Innovation.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Share-Based Compensation

Share-based compensation primarily consists of grants of nonvested or restricted shares of common stock, stock options and RSUs issued to employees. We have applied ASC 718 for our share-based compensation plans for all periods since the incorporation of Himax Taiwan in 2001. 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. Share-based compensation expense estimates also take into account the number of shares awarded that management believes will eventually vest. We adjust our estimate for each period to reflect the current estimate of forfeitures. As of December 31, 2010, we based our share-based compensation cost on an assumed forfeiture rate of 8.75% per annum for RSUs issued in 2008, 14.9% per annum for RSUs issued in 2009 and 2010 under our long-term incentive plan. If actual forfeitures occur at a lower rate, share-based compensation costs will increase in future periods.

For our issuance of RSUs in 2008, 2009 and 2010, the fair value of the ordinary shares underlying the RSUs granted to our employees was \$2.95, \$3.25 and \$2.47 per share, respectively, which was the closing price of our ADSs on September 29, 2008, September 28, 2009 and September 28, 2010, respectively.

Allowance for Doubtful Accounts, Sales Returns and Discounts

We record a reduction to revenues and accounts receivable by establishing a sales discount and return allowance for estimated sales discounts and product returns at the time revenues are recognized based primarily on historical discount and return rates. However, if sales discount and product returns for a particular fiscal period exceed historical rates, we may determine that additional sales discount and return allowances are required to properly reflect our estimated remaining exposure for sales discounts and product returns.

We evaluate our outstanding accounts receivable on a monthly basis for collectibility purposes. In establishing the required allowance, we consider our historical collection experience, current receivable aging and the current trend in the credit quality of our customers. In 2008, we recognized a valuation allowance of \$25.3 million for the probable credit loss relating to SVA-NEC. Since around September 2008, SVA-NEC has delayed paying a large portion of our accounts receivable outstanding from them. Subsequently, in late February 2009, it was reported that

SVA Group, the ultimate parent company of SVA-NEC, was in financial distress, and in late March 2009, the Shanghai municipal government set up a conservatorship committee to assist in SVA Group's restructuring. While we recovered \$8.8 million from SVA-NEC in 2010, we believe it is probable that we would not be able to collect any of our remaining accounts receivable outstanding from SVA-NEC.

The movement in the allowance for doubtful accounts, sales returns and discounts for the years ended December 31, 2008, 2009 and 2010 are as follows:

Allowance for doubtful accounts

Year	Balance at Beginning of Year	Charges (credits) to earnings	Amounts Utilized	Balance at End of Year
			(in thousands)	
December 31, 2008	\$ -	\$ 25,305	\$ (8)	\$ 25,297
December 31, 2009	\$ 25,297	\$ 218	\$ -	\$ 25,515
December 31, 2010	\$ 25,515	\$ (8,788)	\$ -	\$ 16,727

Allowance for sales returns and discounts

Year	Balance at Beginning of Year	Additions Charged to Expense	Amounts Utilized	Balance at End of Year
			(in thousands)	
December 31, 2008	\$ 493	\$ 1,657	\$ (1,988)	\$ 162
December 31, 2009	\$ 162	\$ 2,391	\$ (1,583)	\$ 970
December 31, 2010	\$ 970	\$ 4,551	\$ (4,930)	\$ 591

Inventory

Inventories 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 wafers and processed tape), direct labor and an appropriate proportion of production overheads. We also write down excess and obsolete inventory to its 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-downs may be required which could adversely affect our operating results. Once written down, inventories are carried at this lower amount until sold or scrapped. If actual market conditions are more favorable, we may have higher gross margin when such products are sold. Sales to date of such products have not had a significant impact on our gross margin. The inventory write-downs in 2008, 2009 and 2010 were approximately \$18.0 million, \$13.6 million and \$10.6 million, respectively, and were included in cost of revenues in our consolidated statements of income.

Impairment of Long-Lived Assets, Excluding Goodwill

We routinely review our long-lived assets that are held and used for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, average selling prices, utilization rates and other factors. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment charge is recognized for the amount that the carrying value of the asset exceeds its fair value, based on the best information available, including discounted cash flow analysis. However, due to the cyclical nature of our industry and changes in our business strategy, market requirements, or the needs of our customers, we may not always be in a position to accurately anticipate declines in the utility of our equipment or acquired technology until they occur. We have not had any impairment charges on long-lived assets during the period from December 31, 2008 to December 31, 2010.

Business Combinations

When we acquire businesses, we allocate the purchase price to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the synergistic benefits expected to be derived from the acquired business. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

Goodwill

We evaluate goodwill for impairment at least annually, and test for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. We consider the enterprise as a whole to be a single reporting unit for purposes of evaluating goodwill impairment. 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 we 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 *Business Combination*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. In each of 2008, 2009 and 2010, we performed our impairment testing of goodwill and concluded that there was no goodwill impairment.

Product Warranty

Under our standard terms and conditions of sale, products sold are subject to a limited product quality warranty. We may receive warranty claims outside the scope of the standard terms and conditions. We provide for the estimated cost of product warranties at the time revenue is recognized based primarily on historical experience and any specifically identified quality issues. The movement in accrued warranty costs for the years ended December 31, 2008, 2009 and 2010 is as follows:

Year	Balance at Beginning of Year	Additions Charged to Expense	Amount Utilized	Balance at End of Year
			(in thousands)	
December 31, 2008	\$ 335	\$ 1,526	\$ (1,612)	\$ 249
December 31, 2009	\$ 249	\$ 2,920	\$ (2,490)	\$ 679
December 31, 2010	\$ 679	\$ 3,772	\$ (3,772)	\$ 679

The significant increases in provisions for product warranty costs and amount utilized for the year ended December 31, 2010 were due primarily to an increase in costs relating to indemnification for products quality.

Income Taxes

As part of the process of preparing our consolidated financial statements, our management is required to estimate income taxes and tax bases of assets and liabilities for us and our subsidiaries. This process involves estimating current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes and the amount of tax credits and tax loss carryforwards. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. Management must then assess the likelihood that the deferred tax assets will be recovered from future taxable income, and, to the extent it believes that recovery is not more likely than not, a valuation allowance is provided.

In assessing the ability to realize deferred tax assets, our 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 and therefore the determination of the valuation allowance is dependent upon the generation of future taxable income by the taxable entity during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of different liabilities, projected future taxable income, and tax planning strategies in determining the valuation allowance.

We recognize the effect of income tax positions only if those positions are more likely than not to be sustained. We have to recognize income tax expenses when the possibility of tax adjustments made by the tax authority are greater than 50% in the future period. Changes in income tax recognition or measurement of previous periods are reflected in the period in which the change in judgment occurs.

A reconciliation of the beginning and ending amounts of uncertain tax positions is as follows:

	Year ended December 31,		
	2008	2009	2010
	(in thousands)		
Balance at beginning of year	\$ 3,968	\$ 5,718	\$ 8,450
Increase related to prior year tax positions	-	-	-
Decrease related to prior year tax positions	(1,780)	-	(2,295)
Increase related to current year tax positions	3,555	2,587	133
Effect of exchange rate change	(25)	145	604
Balance at end of year	<u>\$ 5,718</u>	<u>\$ 8,450</u>	<u>\$ 6,892</u>

Except for Himax Taiwan, Himax Technologies Anyang Limited (based in South Korea), or Himax Anyang, Himax Technologies (Suzhou) Co., Ltd., Himax Technologies (Shenzhen) Co., Ltd., and Himax Imaging Corp., most of subsidiaries have generated tax losses since their inception and are not included in the consolidated tax filing with Himax Taiwan or other subsidiaries with taxable income. Valuation allowance of \$21.0 million, \$28.4 million and \$31.6 million as of December 31, 2008, 2009 and 2010, respectively, were provided to reduce their deferred tax assets (consisting primarily of operating loss carryforwards and unused investment tax credits) to zero because management believes it is unlikely that these tax benefits will be realized. An additional valuation allowance of \$11.3 million as of December 31, 2010 was provided to reduce Himax Taiwan's deferred tax assets related to unused investment tax credits. The additional provision of valuation allowance recognized for the years ended December 31, 2008, 2009 and 2010 was \$8.7 million, \$7.4 million and \$14.5 million, respectively, as a result of increases in deferred tax assets originating in these years which we did not expect to realize.

Results of Operations

Our business has evolved rapidly and significantly since we commenced operations in 2001. Our limited operating history makes the prediction of future operating results very difficult. We believe that period-to-period comparisons of operating results should not be relied upon as indicative of future performance. The following table sets forth a summary of our consolidated statements of income as a percentage of revenues:

	Year Ended December 31,		
	2008	2009	2010
	100.0%	100.0%	100.0%
Revenues			
Costs and expenses:			
Cost of revenues	75.5	79.5	79.0
Research and development	10.5	10.3	11.9
General and administrative	2.3	2.4	2.9
(Recovery of) bad debt expense	3.0	-	(1.4)
Sales and marketing	1.4	1.5	2.1
Total costs and expenses	92.8	93.7	94.5
Operating income	7.2	6.3	5.5
Non-operating income (loss)	0.5	-	-
Income tax expense (benefit)	(1.0)	1.1	1.0
Net income	8.7	5.2	4.5
Net loss attributable to noncontrolling interests	0.4	0.6	0.6
Net income attributable to Himax stockholders	9.2	5.7	5.2

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Our revenues decreased 7.2% to \$642.7 million in 2010 from \$692.4 million in 2009. This decrease was attributable mainly to a 25.7% decrease in revenues from display drivers for large-sized applications to \$366.5 million in 2010 from \$493.5 million in 2009 primarily as a result of a significant decrease in sales to Chimei Innolux due to the change of purchase policy by Chimei Innolux to diversify its display driver supply base in 2010. The decrease was partially offset by a 73.2% increase in revenues from display drivers for mobile handset applications to \$119.6 million in 2010 from \$69.1 million in 2009, a 24.4% increase in revenues from display drivers for consumer electronics applications to \$103.9 million in 2010 from \$83.5 million in 2009, and a 13.8% increase in revenues from non-driver products to \$52.6 million in 2010 from \$46.3 million in 2009. Our average selling prices decreased 7.5% in 2010 primarily as a result of the downward pricing pressure from TFT-LCD panel manufacturers in 2010 and changes in product mix, which was partially offset by the impact of tight capacity of the TFT-LCD panel industry on prices in the first half of 2010. Such impact on our revenues was partially offset by a 52.8% increase in our unit shipments of our display drivers for mobile handsets applications, display drivers for consumer electronics applications and other non-driver products as a result of our increased market share for certain products, the larger market size for certain applications and a wider market adoption for some non-driver products.

Costs and Expenses. Costs and expenses decreased 6.4% to \$607.3 million in 2010 from \$648.8 million in 2009. As a percentage of revenues, costs and expenses increased to 94.5% in 2010 compared to 93.7% in 2009.

- **Cost of Revenues.** Cost of revenues decreased 7.8% to \$507.6 million in 2010 from \$550.6 million in 2009. The decrease in cost of revenues was due primarily to a 8.1% decrease in average unit cost, partially offset by a 0.3% increase in unit shipments, as compared to 2009. The decrease in average unit cost was attributable primarily to changes in product mix, our efforts to control cost through optimizing our supplier mix, improving design processes, increasing manufacturing yields and leveraging our scale and close relationship with semiconductor manufacturing service providers and suppliers. As a percentage of revenues, cost of revenues decreased to 79.0% in 2010 from 79.5% in 2009.
- **Research and Development.** Research and development expenses increased 7.1% to \$76.4 million in 2010 from \$71.4 million in 2009. This increase was primarily attributable to increases in salary expenses, mask and mold expenses, verification expenses, and wafer, tape and other related expenses. The increase in salary expenses was due primarily to a larger headcount of research and development staff and higher average salaries. Our mask and mold expenses, inspection expenses and wafer, tape and other related expenses increased primarily as a result of our continued efforts in increasing research and development expenditures.
- **General and Administrative.** General and administrative expenses increased 14.8% to \$18.8 million in 2010 from \$16.3 million in 2009, primarily as a result of an increase in salary expenses, professional fees and employee welfare expenses. The increase in salary expenses was due primarily to a larger headcount of general and administrative staff and higher average salaries. The increase in professional fees was due primarily to increasing patent filing fees and certain expenses relating to our listing application with the Taiwan Stock Exchange on its main board in 2010.
- **Recovery of Bad Debt Expense.** We recorded recovery of bad debt expense of \$8.8 million in 2010, compared to bad debt expense of \$0.2 million in 2009. We recovered such amount in 2010 from SVA-NEC.
- **Sales and Marketing.** Sales and marketing expenses increased 28.2% to \$13.3 million in 2010 from \$10.4 million in 2009, primarily as a result of an increase in salary expenses and travelling expenses. The increase in salary expenses was due primarily to a larger headcount of sales and marketing staff and higher average salaries.

Non-Operating Income (Loss), net. We had a net non-operating loss of \$64,000 in 2010 compared to net non-operating income of \$0.2 million in 2009. Our interest income decreased to \$0.6 million in 2010 from \$0.8 million in 2009 due to a decrease in our cash available. We had a net gain on sale of marketable securities of \$0.3 million in 2010 compared to a net loss on sale of marketable securities of \$0.1 million in 2009 primarily because of the stronger NT dollar, in which the marketable securities were denominated, against the US dollar in 2010. The loss in

our equity method investees increased to \$0.4 million in 2010 from \$0.1 million in 2009, primarily as a result of our investment in a new investee in 2010, whose operation is still in loss. Our foreign currency exchange losses increased to \$0.9 million in 2010 from \$0.5 million in 2009, primarily for the net liability denominated in NT dollar due to the stronger NT dollar against the US dollar in 2010. Our interest expense increased to \$0.2 million from \$3,000 in 2009 because we obtained bank loans in 2010 to fund our investment in subsidiaries and dividend distribution. Our other incomes increased to \$0.5 million in 2010 from \$0.1 million in 2009, primarily as a result of unrealized gains on conversion option in 2010.

Income Tax Expense. Our income tax expense decreased 21.3% to \$6.2 million in 2010 from \$7.9 million in 2009. Our effective income tax rate decreased from 18.1% in 2009 to 17.6% in 2010. This change in our effective income tax rate was mainly attributable to a reduction of the ROC income tax rate from 25% to 17% with effect from January 1, 2010 and the decrease in taxable income due to the stronger NT dollar against the US dollar in 2010, which was partially offset by an increase in income tax expense in 2010 as a result of the additional valuation allowance provided in 2010 to reduce Himax Taiwan's deferred tax assets related to unused investment tax credits and the decrease in investment tax credits under the newly adopted Statute for Industrial Innovation.

Net Income. As a result of the foregoing, our net income decreased 18.8% to \$29.1 million in 2010 from \$35.8 million in 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues. Our revenues decreased 16.9% to \$692.4 million in 2009 from \$832.8 million in 2008. This decrease was attributable mainly to a 24.3% decrease in revenues from display drivers for large-sized applications to \$493.5 million in 2009 from \$651.5 million in 2008 primarily because of the significant decreases in sales to CMO and its affiliates and SVA-NEC in 2009. The decrease was partially offset by a 20.6% increase in revenues from display drivers for mobile handset applications to \$69.1 million in 2009 from \$57.3 million in 2008 and a 9.7% increase in revenues from non-driver products to \$46.3 million in 2009 from \$42.2 million in 2008. Our average selling prices decreased 22.8% in 2009 as a result of the downward pricing pressure from TFT-LCD panel manufacturers in 2009. Such impact on our revenues was partially offset by a 7.6% increase in our unit shipments as a result of the rebound in demand for TFT-LCD panels in the second quarter of 2009.

Costs and Expenses. Costs and expenses decreased 16.0% to \$648.8 million in 2009 from \$772.6 million in 2008. As a percentage of revenues, costs and expenses increased to 93.7% in 2009 compared to 92.8% in 2008.

- *Cost of Revenues.* Cost of revenues decreased 12.4% to \$550.6 million in 2009 from \$628.7 million in 2008. The decrease in cost of revenues was due primarily to a 18.6% decrease in average unit cost, partially offset by a 7.6% increase in unit shipments, as compared to 2008. The decrease in average unit cost was attributable primarily to our efforts to control cost through optimizing our supplier mix, improving design processes, increasing manufacturing yields and leveraging our scale and close relationship with semiconductor manufacturing service providers and suppliers. As a percentage of revenues, cost of revenues increased to 79.5% in 2009 from 75.5% in 2008.
- *Research and Development.* Research and development expenses decreased 18.5% to \$71.4 million in 2009 from \$87.6 million in 2008. This decrease was primarily attributable to decreases in salary expenses (including share-based compensation), mask and mold expenses, and wafer, tape and other related expenses. The decrease in salary expenses (including share-based compensation) was due primarily to the smaller amounts of performance-based bonus and signing bonus distributed in 2009, coupled with the weaker NT dollars against U.S. dollars in 2009. Our mask and mold expenses and wafer, tape and other related expenses decreased primarily as a result of our continued efforts in cost control and our more stringent decision making in approving research and development projects.
- *General and Administrative.* General and administrative expenses decreased 15.5% to \$16.3 million in 2009 from \$19.4 million in 2008, primarily as a result of a decrease in salary expenses (including share-based compensation), professional fees (including patent filing fees) and employee welfare expenses. The decrease in salary expenses (including share-based compensation) was due primarily to the smaller amounts of performance-based bonus and signing bonus distributed in 2009 and a smaller headcount of general and administrative staff, coupled with the weaker NT dollars against U.S. dollars in 2009.

- *Bad Debt Expense.* Bad debt expense decreased to \$0.2 million in 2009 from \$25.3 million in 2008. The significant bad debt expense in 2008 related mainly to the uncollected accounts receivable outstanding from SVA-NEC.
- *Sales and Marketing.* Sales and marketing expenses decreased 11.4% to \$10.4 million in 2009 from \$11.7 million in 2008, primarily as a result of a decrease in salary expenses (including share-based compensation). The decrease in salary expenses was due primarily to a decrease in share-based compensation and lower average salaries.

Non-Operating Income, net. We had net non-operating income of \$0.2 million in 2009 compared to \$3.9 million in 2008. The primary component of our non-operating income in 2009 was interest income amounting to \$0.8 million compared to \$3.3 million in 2008. The 76.9% decrease in interest income was due primarily to lower interest rates in 2009. We also had a net loss on sale of marketable securities of \$0.1 million in 2009 compared to a net gain on sale of marketable securities of \$0.9 million in 2008 primarily because of the weaker NT dollar, in which the marketable securities were denominated, against the US dollar in 2009.

Income Tax Expense (Benefit). We had an income tax expense of \$7.9 million in 2009 compared to an income tax benefit of \$8.7 million in 2008. Our effective income tax rate changed from (13.6)% in 2008 to 18.1% in 2009. This change in our effective income tax rate was mainly attributable to (i) the expiration of one of our tax exemptions under the ROC Statute for Upgrading Industries on March 31, 2009; (ii) an increase in income tax expense in 2009 as a result of the adjustment made to our deferred tax assets and liabilities due to the reduction of the ROC income tax rate from 25% to 20% beginning in 2010; and (iii) a decrease in our tax base as our earnings before income taxes decreased to \$43.7 million in 2009 from \$64.0 million in 2008.

Net Income. As a result of the foregoing, our net income decreased 50.8% to \$35.8 million in 2009 from \$72.7 million in 2008.

5.B. Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2008	2009 (in thousands)	2010
Net cash provided by operating activities	\$ 136,500	\$ 73,630	\$ 57,631
Net cash used in investing activities	(21,810)	(7,541)	(75,099)
Net cash provided by (used in) financing activities	(74,304)	(90,779)	3,305
Net increase (decrease) in cash and cash equivalents	40,420	(24,276)	(14,082)
Cash and cash equivalents at beginning of period	94,780	135,200	110,924
Cash and cash equivalents at end of period	135,200	110,924	96,842

Operating Activities. Net cash provided by operating activities in 2010 was \$57.6 million compared to \$73.6 million in 2009. This decrease in net cash provided by operating activities in 2010 was due primarily to an increase in cash used in 2010 to pay for raw materials, assembly and testing process fees as compared to 2009, partially offset by an increase in cash collected from customers. Net cash provided by operating activities in 2009 was \$73.6 million compared to \$136.5 million in 2008. This decrease in net cash provided by operating activities in 2009 was due primarily to a decrease in cash collected from customers as we had a relatively low accounts receivable balance at the beginning of the year and we extended the credit term for certain customers since late 2008 in view of the weakening market. The decrease in net cash provided by operating activities was also due to our lower gross margin in 2009, partially offset by a decrease in cash used in 2009 to pay for raw materials, assembly and testing process fees as compared to 2008.

Investing Activities. Net cash used in investing activities in 2010 was \$75.1 million compared to \$7.5 million in 2009. This increase in net cash used in investing activities in 2010 was due primarily to an increase in pledge of restricted cash and cash equivalents as collateral for short term debts and purchase of investment securities. Net cash used in investing activities in 2009 was \$7.5 million compared to \$21.8 million in 2008. This decrease in net cash used in investing activities in 2009 was due primarily to a decrease in cash used to purchase property and equipment and to invest in non-marketable equity securities.

Financing Activities. Net cash provided by financing activities in 2010 was \$3.3 million compared to net cash used in financing activities of \$90.8 million in 2009. This change was due primarily to the proceeds from our borrowing of short-term debt, a decrease in payments to acquire ordinary shares for retirement, and a decrease in distribution of cash dividends. Net cash used in financing activities in 2009 was \$90.8 million compared to \$74.3 million in 2008. This increase in net cash used in financing activities in 2009 was due primarily to an increase in payments to acquire ordinary shares for retirement, partially offset by a decrease in distribution of cash dividends.

Our liquidity could be negatively impacted by a decrease in demand for our products. Our products are subject to rapid technological change, among other factors, which could result in revenue variability in future periods. Further, we expect to continue increasing our headcount, especially in engineering and sales, to pursue growth opportunities and keep pace with changes in technology. Should demand for our products slow down or fail to grow as expected, our increased headcount would result in sustained losses and reductions in our cash balance. We have at times agreed to extend the payment terms for certain of our customers. Other customers have also requested extension of payment terms and we may grant such requests for extensions in the future. The extension of payment terms for our customers could adversely affect our cash flow, liquidity and our operating results.

Our capital expenditures were incurred primarily in connection with purchase of property and equipment. Our capital expenditures totaled \$17.5 million, \$10.6 million and \$7.2 million in 2008, 2009 and 2010, respectively. We will continue to make capital expenditures to meet the expected growth of our operations. We believe that our working capital is sufficient for our present requirements. We may, however, require additional cash resources due to higher than expected growth in our business or other changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

5.C. Research and Development

Our research and development efforts focus on improving and enhancing our core technologies and know-how relating to the semiconductor solutions we offer to the flat panel display industry. In particular, we have committed a significant portion of our resources to the research and development of non-driver products because we believe in the long-term business prospects of such products and are committed to continuing to diversify our product portfolio. Although a significant portion of the resources at our integrated circuit design center are invested in advanced research for future products, we continue to invest in improving the performance and reducing the costs of our existing products. Our application engineers, who provide on-system verification of semiconductors and product specifications, and field application engineers, who provide on-site engineering support at our customers' offices or factories, work closely with panel manufacturers to co-develop display solutions for their electronic devices. In 2008, 2009 and 2010, we incurred research and development expenses of \$87.6 million, \$71.4 million and \$76.4 million, respectively, representing 10.5%, 10.3% and 11.9% of our revenues, respectively.

5.D. Trend Information

LED TVs, 3D TVs, smartphones and tablet PCs are the major themes for the large and small and medium-sized panels. There will be more and more similar products on the market. However, the flat panel display industry is highly cyclical and subject to price fluctuations and seasonality. In the first half of 2010, due to rush orders from customers, supply of display drivers became very tight, especially for wafer foundry and processed tape. TFT-LCD panel manufacturers began to significantly increase their orders for certain components for TFT-LCD panels because of concerns about component shortage. As a result, the TFT-LCD panel industry suffered again from an over-supply in the second half of 2010 as the end demand did not pick up as expected, which negatively affected our sales to the TFT-LCD panel industry. However, even though the recent Japan earthquake has had limited impact on our own display driver supply chain, it does pose an uncertainty to our performance as we are not entirely certain how the overall industry supply chain has been affected.

The potential expansion plans for next generation fabs in China proposed by several TFT-LCD panel manufacturers might significantly increase the output of the TFT-LCD panels if all of the plans are implemented in the following years. Although these capacity expansions offer attractive new driver business opportunities, they might also cause over-supply for TFT-LCD panels at the same time.

For more trend information, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results."

5.E. Off-Balance Sheet Arrangements

As of December 31, 2010, we did not have any off-balance sheet guarantees, interest rate swap transactions or foreign currency forwards. We do not engage in trading activities involving non-exchange traded contracts. Furthermore, as of December 31, 2010, we did not have any interests in variable interest entities.

5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2010:

	Payment Due by Period				
	Total	Less than 1 year	1-3 years (in thousands)	3-5 years	More than 5 years
Operating lease obligations	3,778	1,131	725	374	1,548
Purchase obligations ⁽¹⁾	133,388	133,388	-	-	-
Other obligations ⁽²⁾	2,167	1,349	518	300	-
Total	139,333	135,868	1,243	674	1,548

Notes: (1) Includes obligations for purchase of equipment, computer software and machinery and wafer fabrication, raw material, supplies, assembly and testing services.

(2) Includes obligations under license agreements and donations for laboratories commitments.

We lease office and building space pursuant to operating lease arrangements with unrelated third parties. In 2008, 2009 and 2010, rental expenses for operating leases amounted to \$1.2 million, \$1.1 million and \$1.2 million, respectively. The lease arrangements will expire gradually from 2011 to 2013. As of December 31, 2010, we agreed to make future minimum lease payments of \$0.9 million, \$0.3 million and \$32,000 in 2011, 2012 and 2013, respectively, under non-cancelable operating leases.

We have, from time to time, entered into contracts for the acquisition of equipment and computer software. As of December 31, 2010, the remaining commitments under such contracts were \$7.7 million. These outstanding contracts had a total contract value of \$8.8 million.

Pursuant to several wafer fabrication or assembly and testing service arrangements we entered into with service providers, we may be obligated to make payments for purchase orders made under such arrangements. As of December 31, 2010, our contractual obligations pursuant to such arrangements amounted to approximately \$106.4 million.

As of December 31, 2010, we had obtained from banks an outstanding letter of credit amounting to \$1.8 million in connection with the purchase of machinery and equipment and a standby letter of credit amounting to \$250,000 to secure our obligations under a license agreement.

We have also agreed to donate a total of NT\$55.4 million (\$1.7 million) to two top local universities in Taiwan for development of their laboratories. As of December 31, 2010, the remaining commitments were NT\$12 million (\$0.4 million).

Under the ROC Labor Standard Law, we established a defined benefit plan and were required to make monthly contributions to a pension fund in an amount equal to 2% of wages and salaries of our employees. Under the ROC Labor Pension Act, beginning on July 1, 2005, we are required to make a monthly contribution for employees that elect to participate in the new defined contribution plan of no less than 6% of the employee's monthly wages, to the employee's individual pension fund account. Substantially all participants in the defined benefit plan have elected to participate in the new defined contribution plan. Participants' accumulated benefits under the defined benefit plan are not impacted by their election to change plans. We are required to make contributions to the defined benefit plan until it is fully funded. Total contributions to the new defined contribution plan in 2010 were \$1.5 million compared to \$1.3 million and \$1.4 million in 2009 and 2008, respectively. Total contributions to the defined benefit plan and the new defined contribution plan in 2010 were \$1.7 million compared to \$1.5 million and \$1.8 million in 2009 and 2008, respectively. Such changes in contributions have not, and are not expected to have, a material effect on our cash flows or results of operations.

Inflation

Inflation in Taiwan has not had a material impact on our results of operations in recent years. However, an increase in inflation can lead to increases in our costs and lower our profit margins. According to the Directorate General of Budget, Accounting and Statistics, Executive Yuan, ROC, the change of consumer price index in Taiwan was 3.5%, (0.9)% and 1.0% in 2008, 2009 and 2010, respectively.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

Members of our board of directors may be elected by our directors or our shareholders. Our board of directors consists of seven directors, three of whom are independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. Other than Jordan Wu and Dr. Biing-Seng Wu, who are brothers, there are no family relationships between any of our directors and executive officers. The following table sets forth information regarding our directors and executive officers as of March 31, 2011. Unless otherwise indicated, the positions or titles indicated in the table below refer to Himax Technologies, Inc.

Directors and Executive Officers	Age	Position/Title
Dr. Biing-Seng Wu	53	Chairman of the Board
Jordan Wu	50	President, Chief Executive Officer and Director
Tien-Jen Lin	48	Director
Chih-Chung Tsai	55	Director, Chief Technology Officer, Senior Vice President
Dr. Chun-Yen Chang	73	Director
Dr. Yan-Kuin Su	62	Director
Yuan-Chuan Horng	59	Director
Jessica Pan	41	Acting Chief Financial Officer
John Chou	52	Vice President, Quality & Reliability Assurance & Support Design Center
Norman Hung	53	Vice President, Sales and Marketing

Directors

Dr. Biing-Seng Wu is the chairman of our board of directors. Prior to our reorganization in October 2005, Dr. Wu served as president, chief executive officer and a director of Himax Taiwan. Dr. Wu also served as the vice chairman of the board of directors of CMO prior to its merger with Innolux and TPO and is a director of Chi Lin Technology Co., Ltd., an electronics manufacturing service provider, Chi Mei El Corp., an OLED company, and Nexgen Mediatech Inc., a TFT-LCD television manufacturer. Dr. Wu has been active in the TFT-LCD panel industry for over 20 years and is a member of the boards of the Taiwan TFT-LCD Association and the Society for Information Display. Prior to joining CMO in 1998, Dr. Wu was senior director and plant director of Prime View International Co., Ltd., a TFT-LCD panel manufacturer, from 1993 to 1997, and a manager of Thin Film Technology Development at the Electronics Research & Service Organization/Industry Technology Research Institute, or ERSO/ITRI, of Taiwan. Dr. Wu holds a B.S. degree, an M.S. degree and a Ph.D. degree in electrical engineering from National Cheng Kung University. Dr. Wu is the brother of Mr. Jordan Wu, our president and chief executive officer.

Jordan Wu is our president, chief executive officer and director. Prior to our reorganization in October 2005, Mr. Wu served as the chairman of the board of directors of Himax Taiwan, a position that he held since April 2003. Prior to joining Himax Taiwan, Mr. Wu served as chief executive officer of TV Plus Technologies, Inc. and chief financial officer and executive director of DVN Holdings Ltd. in Hong Kong. Prior to that, he was an investment banker at Merrill Lynch (Asia Pacific) Limited, Barclays de Zoete Wedd (Asia) Limited and Baring Securities, based in Hong Kong and Taipei. Mr. Wu holds a B.S. degree in mechanical engineering from National Taiwan University and an M.B.A. degree from the University of Rochester. Mr. Wu is the brother of Dr. Biing-Seng Wu, our chairman.

Tien-Jen Lin is our director. Mr. Lin is the Special Assistant to General Manager in Chimei Innolux. Mr. Lin has extensive experience and broad knowledge in the TFT-LCD industry. Prior to the current position, he has held

various positions in the field of TFT-LCD panel product design and market development. Mr. Lin holds a B.S. degree and an M.S. degree in electrical engineering from National Taiwan University.

Chih-Chung Tsai is our director, chief technology officer and senior vice president. Prior to joining Himax Taiwan, Mr. Tsai served as vice president of IC Design of Utron Technology from 1998 to 2001, manager and director of the IC Division of Sunplus Technology from 1994 to 1998, director of the IC Design Division of Silicon Integrated Systems Corp. from 1987 to 1993 and project leader at ERSO/ITRI from 1981 to 1987. Mr. Tsai holds a B.S. degree and an M.S. degree in electrical engineering from National Chiao Tung University.

Dr. Chun-Yen Chang is our director. Prior to our reorganization in October 2005, he served as a supervisor of Himax Taiwan since December 2003. He was president of the National Chiao Tung University, or NCTU, of Taiwan from 1998 to 2006. Prior to that, he served as the director of the Microelectronics and Information Systems Research Center of NCTU from 1996 to 1998 and as the dean of both the College of Electrical Engineering and Computer Science of NCTU and the College of Engineering of NCTU from 1990 to 1994. Dr. Chang has been active in the semiconductor industry for over 40 years. He is a fellow of the Institute of Electrical and Electronics Engineers, Inc., or IEEE, a foreign associate of the National Academy of Engineering of the United States and a fellow of Academia Sinica of Taiwan. Dr. Chang holds a B.S. degree in electrical engineering from National Cheng Kung University and an M.S. degree and a Ph.D. degree in electrical engineering from NCTU.

Dr. Yan-Kuin Su is our director. He is currently the president of Kun Shan University and also a professor of Department of Electrical Engineering, National Cheng Kung University since 1983. He is also a fellow of the Institute of Electrical and Electronics Engineers, Inc. Dr. Su holds a B.S. degree and an M.S. degree and a Ph.D. degree in Electrical Engineering of National Cheng Kung University.

Yuan-Chuan Horng is our director. He is currently the vice president of the Finance Department of Dragon Steel Corporation since July 2010. Prior to our reorganization in October 2005, Mr. Horng served as a director of Himax Taiwan from August 2004 to October 2005. Mr. Horng was the general manager of the Finance Department of China Steel Corporation, a position he has held since April 2000. He has held various accounting and finance positions at China Steel Corporation for over 30 years. Mr. Horng holds a B.A. degree in economics from Soochow University.

Other Executive Officers

Jessica Pan is our acting chief financial officer. Prior to joining Himax, Mrs. Pan served as assistant finance manager for Advanced Semiconductor Engineering, Inc. from 2002 to 2006 and as an auditor for T N Soong & Co, now a member firm of Deloitte Touche Tohmatsu, from 1998 to 2001. Mrs. Pan holds a B.S. degree in agriculture chemistry from National Taiwan University and an M.B.A. degree from the State University of New York at Buffalo, New York.

John Chou is our vice president in charge of the Quality & Reliability Assurance & Support Design Center and also serves as a director of Himax Media Solutions and Himax Media Solutions (Hong Kong) Limited. Prior to joining Himax in 2005, Mr. Chou served as the director of the Application and Marketing Department at Pyramis Corp., a subsidiary and the semiconductor arm of Delta Electronics Inc., from August 2002 to April 2005. Mr. Chou was application manager at O2Micro, Inc., an integrated circuit design house, from 1997 to 2002 and design engineer and project manager at Philips Lighting Electronics from 1992 to 1996. Mr. Chou holds a B.S. degree in electrical engineering from National Cheng Kung University and an M.S. degree in electrical engineering from California State University, Los Angeles.

Norman Hung is our vice president in charge of Sales and Marketing and also serves as a supervisor of Himax Analogic and Himax Media Solutions. From 2000 to 2006, Mr. Hung served as president of ZyDAS Technology Corp., a fabless integrated circuit design house. From 1999 to 2000, he served as vice president of Sales and Marketing for HiMARK Technology Inc., another fabless integrated circuit design house. Prior to that, from 1996 to 1998, Mr. Hung served as Director of Sales and Marketing for Integrated Silicon Solution, Inc. He has also served in various Marketing positions for Hewlett-Packard and Logitech. Mr. Hung holds a B.S. degree in electrical engineering from National Cheng Kung University and an executive M.B.A. degree from National Chiao Tung University.

6.B. Compensation of Directors and Executive Officers

For the year ended December 31, 2010, the aggregate cash compensation that we paid to our executive officers was approximately \$0.6 million. The aggregate share-based compensation that we paid to our executive officers was approximately \$1.2 million. In 2010, our executive officers voluntarily either reduced the number of RSUs to be granted proposed by the compensation committee to \$1 or contribute half of their RSUs to the share-based compensation pool which were then reallocated to compensate other employees. The goal is to provide competitive compensation to our employees. No executive officer is entitled to any severance benefits upon termination of his or her employment with us.

For the year ended December 31, 2010, the aggregate cash compensation that we paid to our independent directors was approximately \$120,000. The aggregate share-based compensation that we paid to our independent directors was nil.

The following table summarizes the RSUs that we granted in 2010 to our directors and executive officers under our 2005 long-term incentive plan. Each unit of RSU represents two ordinary shares after effected on August 10, 2009. See “Item 6.D. Directors, Senior Management and Employees—Employees—Share-Based Compensation Plans” for more details regarding our RSU grants.

Name	Total RSUs Granted	Ordinary Shares Underlying Vested Portion of RSUs	Ordinary Shares Underlying Unvested Portion of RSUs
Dr. Biing-Seng Wu	-	-	-
Jordan Wu	-	-	-
Tien-Jen Lin	-	-	-
Chi-Chung Tsai	-	-	-
Dr. Chun-Yen Chang	-	-	-
Dr. Yan-Kuin Su	-	-	-
Yuan-Chuan Horng	-	-	-
Max Chan ⁽¹⁾	10,729	9,716	-
Jessica Pan ⁽²⁾	15,182	9,716	20,648
John Chou	17,004	9,716	24,292
Norman Hung	18,219	9,716	26,722

(1) Max Chan resigned as our Chief Financial Officer, with effect from October 1, 2010.

(2) Jessica Pan was appointed as our Acting Chief Financial Officer, with effect from October 1, 2010.

6.C. Board Practices

General

Our board of directors consists of seven directors, three of whom are independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. We intend to follow home country practice that permits our board of directors to have less than a majority of independent directors in lieu of complying with Rule 5605(b)(1) of the Nasdaq Rules that require boards of U.S. companies to have a board of directors which is comprised of a majority of independent directors. Moreover, we intend to follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).

Committees of the Board of Directors

To enhance our corporate governance, we have established three committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee currently consists of Yuan-Chuan Horng, Dr. Chun-Yen Chang and Dr. Yan-Kuin Su. Our board of directors has determined that all of our audit committee members are “independent directors” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act. Our audit committee will oversee our accounting and financial reporting processes and the audits of our financial statements. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation SK under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent auditors;
- reporting regularly to the board of directors; and
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

Compensation Committee. Our current compensation committee consists of Yuan-Chuan Horng, Dr. Yan-Kuin Su, Dr. Chun-Yen Chang and Tien-Jen Lin. Our compensation committee assists our board of directors in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting where his or her compensation is deliberated. We intend to follow home country practice that permits a compensation committee to contain a director who does not meet the definition of “independence” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. We intend to follow home country practice in lieu of complying with Rule 5605(d)(1)(B) and (2)(B) of the Nasdaq Rules which requires the compensation committees of U.S. companies to be comprised solely of independent directors. The compensation committee will be responsible for, among other things:

- reviewing and making recommendations to our board of directors regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and determining bonuses for our officers and other employees;
- reviewing and determining share-based compensation for our directors, officers, employees and consultants;
- administering our equity incentive plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee assists the board of directors in identifying individuals qualified to be members of our board of directors and in determining the composition of the board and its committees. Our current nominating and corporate governance committee consists of Yuan-Chuan Horng, Dr. Chun-Yen Chang, Dr. Yan-Kuin Su and Tien-Jen Lin. We intend to follow home country practice that permits a nominations committee to contain a director who does not meet the definition of “independence” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. We intend to follow home country practice in lieu of complying with Rule 5605(e)(1)(B) of the Nasdaq Rules that requires the nominations

committees of U.S. companies be comprised solely of independent directors. Our nominating and corporate governance committee will be responsible for, among other things:

- identifying and recommending to our board of directors nominees for election or re-election, or for appointment to fill any vacancy;
- reviewing annually with our board of directors the current composition of our board of directors in light of the characteristics of independence, age, skills, experience and availability of service to us;
- reviewing the continued board membership of a director upon a significant change in such director's principal occupation;
- identifying and recommending to our board of directors the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Terms of Directors and Officers

Under Cayman Islands law and our articles of association, each of our directors holds office until a successor has been duly elected or appointed, except where any director was appointed by the board of directors to fill vacancy on the board of directors or as an addition to the existing board, such director shall hold office until the next annual general meeting of shareholders at which time such director is eligible for re-election. Our directors are subject to periodic retirement and re-election by shareholders in accordance with our articles of association, resulting in their retirement and re-election at staggered intervals. At each annual general meeting, one-third of our directors are subject to retirement by rotation, or if their number is not a multiple of three, the number nearest to one-third but not exceeding one-third shall retire from office. Any retiring director is eligible for re-election. The chairman of our board of directors and/or the managing director will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. Under this formula, assuming seven directors continue to serve on the board of directors, two directors will retire and be subject to re-election in each year beginning in 2010. Under our articles of association, which director will retire at each annual general meeting will be determined as follows: (i) any director who wishes to retire and not offer himself for re-election, (ii) if no director wishes to retire, the director who has been longest in office since his last re-election or appointment, and (iii) if two or more directors have served on the board the longest, then as agreed among the directors themselves or as determined by lot. Beginning in 2010, assuming that our board of directors continue to consist of seven directors, the term of each director (other than the chairman) will not exceed three years. All of our executive officers are appointed by our board of directors.

6.D. Employees

As of December 31, 2008, 2009 and 2010, we had 1,214, 1,229 and 1,341 employees, respectively. The following is a breakdown of our employees by function as of December 31, 2010:

Function	Number
Research and development ⁽¹⁾	828
Engineering and manufacturing ⁽²⁾	199
Sales and marketing ⁽³⁾	223
General and administrative	91
Total	<u>1,341</u>

Notes: (1) Includes semiconductor design engineers, application engineers, assembly and testing engineers and quality control engineers.

(2) Includes manufacturing personnel of Himax Display, our subsidiary focused on design and manufacturing of LCOS products and liquid crystal injection services.

(3) Includes field application engineers.

Share-Based Compensation Plans

Himax Technologies, Inc. 2005 Long-Term Incentive Plan

We adopted a long-term incentive plan in October 2005. The following description of the plan is intended to be a summary and does not describe all provisions of the plan.

Purpose of the Plan. The purpose of the plan is to advance our interests and those of our shareholders by:

- providing the opportunity for our employees, directors and service providers to develop a sense of proprietorship and personal involvement in our development and financial success and to devote their best efforts to our business; and
- providing us with a means through which we may attract able individuals to become our employees or to serve as our directors or service providers and providing us a means whereby those individuals, upon whom the responsibilities of our successful administration and management are of importance, can acquire and maintain share ownership, thereby strengthening their concern for our welfare.

Type of Awards. The plan provides for the grant of stock options and restricted share units.

Duration. Generally, the plan will terminate five years from the effective date of the plan. After the plan is terminated, no awards may be granted, but any award previously granted will remain outstanding in accordance with the plan.

Administration. The plan is administered by the compensation committee of our board of directors or any other committee designated by our board to administer the plan. Committee members will be appointed from time to time by, and will serve at the discretion of, our board. The committee has full power and authority to interpret the terms and intent of the plan or any agreement or document in connection with the plan, determine eligibility for awards and adopt such rules, regulations, forms, instruments and guidelines for administering the plan. The committee may delegate its duties or powers.

Number of Authorized Shares. We have authorized a maximum of 36,153,854 shares to be issued under the plan. As of the date of this annual report, there were no stock options or restricted share units outstanding under the plan except as described under “—Restricted Share Units.”

Eligibility and Participation. All of our employees, directors and service providers are eligible to participate in the plan. The committee may select from all eligible individuals those individuals to whom awards will be granted and will determine the nature of any and all terms permissible by law and the amount of each award.

Stock Options. The committee may grant options to participants in such number, upon such terms and at any time as it determines. Each option grant will be evidenced by an award document that will specify the exercise price, the maximum duration of the option, the number of shares to which the option pertains, conditions upon which the option will become vested and exercisable and such other provisions which are not inconsistent with the plan.

The exercise price for each option will be:

- based on 100% of the fair market value of the shares on the date of grant;
- set at a premium to the fair market value of the shares on the day of grant; or

- indexed to the fair market value of the shares on the date of grant, with the committee determining the index.

The exercise price on the date of grant must be at least equal to 100% of the fair market value of the shares on the date of grant.

Each option will expire at such time as the committee determines at the time of its grant; however, no option will be exercisable later than the 10th anniversary of its grant date. Notwithstanding the foregoing, for options granted to participants outside the United States, the committee can set options that have terms greater than ten years.

Options will be exercisable at such times and be subject to such terms and conditions as the committee approves. A condition of the delivery of shares as to which an option will be exercised will be the payment of the exercise price. Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment, we will deliver to the participant evidence of book-entry shares or, upon his or her request, share certificates in an appropriate amount based on the number of shares purchased under the option(s). The committee may impose such restrictions on any shares acquired pursuant to the exercise of an option as it may deem advisable.

Each participant's award document will set forth the extent to which he or she will have the right to exercise the options following termination of his or her employment or services.

We have not yet granted any stock options under the plan.

Restricted Share Units. The committee may grant restricted share units to participants. Each grant will be evidenced by an award document that will specify the period (s) of restriction, the number of restricted share units granted and such other provisions as the committee determines.

Generally, restricted share units will become freely transferable after all conditions and restrictions applicable to such shares have been satisfied or lapse and restricted share units will be paid in cash, shares, or a combination, as determined by the committee.

The committee may impose such other conditions or restrictions on any restricted share units as it may deem advisable, including a requirement that participants pay a stipulated purchase price for each restricted share unit, restrictions based upon the achievement of specific performance goals and time-based restrictions on vesting.

A participant will have no voting rights with respect to any restricted share units.

Each award document will set forth the extent to which the participant will have the right to retain restricted share units following termination of his or her employment or services.

We made grants of 7,108,675 RSUs to our employees on September 29, 2008. The vesting schedule for such RSU grants is as follows: 60.64% of the RSU grants vested immediately and was settled by cash in the amount of \$12.7 million on the grant date, with the remainder vesting equally on each of September 30, 2009, 2010 and 2011, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 3,577,686 RSUs to our employees on September 28, 2009. The vesting schedule for such RSU grants is as follows: 55.96% of the RSU grants vested immediately and was settled by cash in the amount of \$6.5 million on the grant date, with the remainder vesting equally on each of September 30, 2010, 2011 and 2012, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 3,488,952 RSUs to our employees on September 28, 2010. The vesting schedule for such RSU grants is as follows: 68.11% of the RSU grants vested immediately and was settled by cash in the amount of \$5.9 million on the grant date, with the remainder vesting equally on each of September 30, 2011, 2012 and 2013, which will be settled by our ordinary shares, subject to certain forfeiture events.

Dividend Equivalents. Any participant selected by the committee may be granted dividend equivalents based on the dividends declared on shares that are subject to any award, to be credited as of dividend payment dates, during the period between the date the award is granted and the date the award is exercised, vests, or expires, as determined

by the committee, provided that unvested RSUs are currently not entitled to dividend equivalents. Dividend equivalents will be converted to cash or additional shares by such formula and at such time and subject to such limitations as determined by the committee.

Transferability of Awards. Generally, awards cannot be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

Adjustments in Authorized Shares. In the event of any of the corporate events or transactions described in the plan, to avoid any unintended enlargement or dilution of benefits, the committee has the sole discretion to substitute or adjust the number and kind of shares that can be issued or otherwise delivered.

Forfeiture Events. The committee may specify in an award document that the participant's rights, payments and benefits with respect to an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an award.

If we are required to prepare an accounting restatement owing to our material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws, then if the participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, the participant will reimburse us the amount of any payment in settlement of an award earned or accrued during the twelve-month period following the first public issuance or filing with the SEC (whichever first occurred) of the financial document embodying such financial reporting requirement.

Amendment and Termination. Subject to, and except as, provided in the plan, the committee has the sole discretion to alter, amend, modify, suspend, or terminate the plan and any award document in whole or in part. Amendments to the plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations.

6.E. Share Ownership

The following table sets forth the beneficial ownership of our ordinary shares, as of March 31, 2011, by each of our directors and executive officers.

Name	Number of Shares Owned	Percentage of Shares Owned
Dr. Biing-Seng Wu	67,710,206	19.1%
Jordan Wu	25,627,522	7.2%
Tien-Jen Lin	-	-
Chih-Chung Tsai	6,316,866	1.8%
Dr. Chun-Yen Chang	1,599,614	0.5%
Dr. Yan-Kuin Su	-	-
Yuan-Chuan Horng	916,104	0.3%
Jessica Pan	20,420	*
John Chou	280,214	0.1%
Norman Hung	280,770	0.1%

* Less than 0.1%

None of our directors or executive officers has voting rights different from other shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

On August 10, 2009, we effected certain changes in our capital stock structure in order to meet the Taiwan Stock Exchange's primary listing requirement that the par value of shares be NT\$10 or \$0.3 per share and in order to increase the number of outstanding ordinary shares to be listed on the Taiwan Stock Exchange. In particular, we increased our authorized share capital from \$50,000 (divided into 500,000,000 shares of par value \$0.0001 each) to

\$300,000,000 (divided into 3,000,000,000,000 shares of par value \$0.0001 each) and distributed 5,999 bonus shares for each share of par value \$0.0001 held by shareholders of record as of August 7, 2009. These were followed by a consolidation of every 3,000 shares of par value \$0.0001 each into one ordinary share of par value \$0.3 each. As a result, the number of ordinary shares outstanding was doubled and each of our ordinary shares had a par value of \$0.3.

In connection with the above changes, we also changed our ADS ratio effective August 10, 2009 from one ADS representing one ordinary share to one ADS representing two ordinary shares. Such change in ADS ratio was intended to adjust for the net dilutive effect due to the bonus shares distribution and the shares consolidation so that each ADS would represent the same percentage ownership in our share capital immediately before and after the above changes. The number of ADSs also remained the same immediately before and after the above changes.

As of March 31, 2011, 353,842,764 of our shares were outstanding. We believe that, of such shares, 158,550,400 shares in the form of ADSs were held by approximately 12,057 holders in the United States as of March 31, 2011.

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of March 31, 2011, the most recent practicable date, by (i) each shareholder known by us to beneficially own more than 5% of our shares and (ii) all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Dr. Biing-Seng Wu	67,710,206	19.1%
FMR LLC ⁽¹⁾	53,701,826	15.2%
Chimei Innolux ⁽²⁾	50,799,506	14.4%
Jordan Wu	25,627,522	7.2%
All directors and executive officers as a group	102,751,716	29.1%

Notes: (1) According to the amendment to the Schedule 13G filed with the SEC on February 14, 2011, FMR LLC, together with its affiliates, beneficially owned 53,701,826 of our shares, some or all of which may include shares represented by our ADS, as of December 31, 2010. We do not have further information with respect to any changes in FMR LLC's beneficial ownership of our shares subsequent to December 31, 2010.

(2) As of March 31, 2011, Chimei Innolux also beneficially owns an equity interest of approximately 6.6% in our subsidiary Himax Media Solutions.

We have a close relationship with Chimei Innolux, one of our major shareholders and a leading TFT-LCD panel manufacturer based in Taiwan and listed on the Taiwan Stock Exchange. Chimei Innolux's primary focus is the manufacture of large-sized TFT-LCD panels for use in notebook computers, desktop monitors and LCD televisions. Chimei Innolux was formerly known as Innolux and is the surviving entity following the completion of the merger of CMO, Innolux, and TPO on March 18, 2010. Several of Himax Taiwan's initial employees, including Dr. Biing-Seng Wu, our chairman, were former employees of CMO. CMO was Himax Taiwan's largest shareholder at the time of its incorporation, and Chimei Innolux currently is one of our largest shareholders. Chimei Innolux or CMO has also been our largest customer since our inception. In 2010, sales to Chimei Innolux (together with its affiliates), combined with Innolux and TPO before the merger, accounted for 52.8% of our revenues. Certain of our directors also held or hold key management positions at Chimei Innolux or, CMO or its affiliates prior to the merger. Mr. Tien-Jen Lin, our director, served as the Special Assistant to General Manager in Chimei Innolux. Prior to the merger, Mr. Jung-Chun Lin, our former director, was the senior vice president of finance and administration of CMO and Dr. Biing-Seng Wu, our chairman, was the vice chairman of the board of directors of CMO. After the merger, Mr. Jung-Chun Lin and Dr. Biing-Seng Wu no longer hold positions in Chimei Innolux. We also have entered into various transactions with Chimei Innolux, or CMO prior to the merger, and its affiliates as further described below.

None of our major shareholders has voting rights different from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

7.B. Related Party Transactions

Chimei Innolux and Related Companies

Chimei Innolux

We sold display drivers to Chimei Innolux. We generated net sales to Chimei Innolux in the amount of \$72.4 million in 2010, including sales to CMO before its merger. Our receivables from such sales were \$27.3 million as of December 31, 2010.

We lease office space, facilities and inventory locations from Chimei Innolux and certain of its subsidiaries. Rent and utility expenses resulting from such leases in 2010 were \$1.1 million. The related payables as of December 31, 2010 were \$0.4 million. As of December 31, 2010, we agreed to make future minimum lease payments of \$2.5 million in aggregate under non-cancelable operating leases with these related parties.

In 2010, we purchased consumable and miscellaneous items amounting to \$0.4 million from Chimei Innolux and other related parties. The related payables as of December 31, 2010 were nil.

CMO-NingBo

CMO-NingBo is a subsidiary of Chimei Innolux. We sell display drivers to CMO-NingBo. We generated net sales to CMO-NingBo in the amount of \$167.3 million in 2010. Our receivables from such sales were \$39.8 million as of December 31, 2010.

CMO-NanHai

CMO-NanHai is a subsidiary of Chimei Innolux. We sell display drivers to CMO-NanHai. We generated net sales to CMO-NanHai in the amount of \$51.8 million in 2010. Our receivables from such sales were \$16.3 million as of December 31, 2010.

NingBo Chi Hsin Electronics Ltd.

NingBo Chi Hsin Electronics Ltd., or Chi Hsin-NingBo, is a subsidiary of Chimei Innolux. We sell display drivers for certain audio and visual and mobile applications to Chi Hsin-NingBo. We generated net sales to Chi Hsin-NingBo in the amount of \$19.7 million in 2010. Our receivables from such sales were \$6.5 million as of December 31, 2010.

NingBo Chi Mei Electronics Ltd.

NingBo Chi Mei Electronics Ltd., or CME-NingBo, is a subsidiary of Chimei Innolux. We sell display drivers for large-sized applications to CME-NingBo. We generated net sales to CME-NingBo in the amount of \$8.6 million in 2010, and our receivables from these sales were approximately \$4.8 million as of December 31, 2010.

Dongguan Chi Hsin Electronics Co., Ltd.

Dongguan Chi Hsin Electronics Co., Ltd., or Chi Hsin-Dongguan, is a subsidiary of Chimei Innolux. We sell display drivers for certain audio and visual and mobile applications to Chi Hsin-Dongguan. We generated net sales to Chi Hsin-Dongguan in the amount of \$0.6 million in 2010. Our receivables from such sales were nil as of December 31, 2010.

Amlink (Shanghai) Ltd.

Amlink (Shanghai) Ltd., or Amlink, is a subsidiary of Ampower Holding Ltd., which is an equity-method investee of Chimei Innolux. Beginning on March 18, 2010, it is no longer considered a related party. We sell timing controllers and operational amplifiers to Amlink. We generated net sales to Amlink in the amount of \$0.9 million in 2010. Our receivables from such sales were nil as of December 31, 2010.

Other Related Party Transactions

Shenzhen Nexgen Trading Co., Ltd.

Shenzhen Nexgen Trading Co., Ltd., or Shenzhen Nexgen, is a subsidiary of Nexgen Mediatech Inc., where our Chairman, Dr. Biing-Seng Wu, serves as a director. We sell display drivers for large-sized applications to Shenzhen Nexgen. We generated net sales to Shenzhen Nexgen in the amount of \$13.0 million in 2010. Our receivables from such sales were nil as of December 31, 2010.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

8.A.1. See “Item 18. Financial Statements” for our audited consolidated financial statements.

8.A.2. See “Item 18. Financial Statements” for our audited consolidated financial statements, which cover the last three financial years.

8.A.3. See page F-1 for the report of our independent registered public accounting firm.

8.A.4. Not applicable.

8.A.5. Not applicable.

8.A.6. See Note 21 to our audited consolidated financial statements included in “Item 18. Financial Statements.”

8.A.7. *Litigation*

On July 30, 2007, a class action was filed in the United States District Court for the Central District of California entitled Vivian Oh v. Max Chan, CV07-04891-DDP. The suit was allegedly brought on behalf of purchasers of our ordinary shares pursuant and/or traceable to our initial public offering on or about March 30, 2006. The complaint named our former Chief Financial Officer, Max Chan, as the sole defendant, alleging a breach of fiduciary duty and violations of Sections 11, 12(a)(2) and 15 of the Securities Act. The complaint sought damages in an unspecified amount, rescission of the initial public offering, and attorney’s fees and costs. On August 30, 2007, a similar class action was filed in the same court entitled Michael Pfeiffer v. Himax Technologies, Inc., Max Chan, and Jordan Wu, CV07-05468-JFW. The suit was allegedly brought on behalf of purchasers of our ADSs issued in our initial public offering. The complaint named us, our Chief Executive Officer, Jordan Wu, and our former Chief Financial Officer, Max Chan, as defendants, alleging violations of Sections 11 and 15 of the Securities Act. The complaint sought damages in an unspecified amount and attorney’s fees and costs.

On October 3, 2007, the plaintiffs moved to consolidate the cases, appoint lead plaintiffs and approve lead plaintiffs’ selection of counsel. That motion was granted on February 5, 2008. Plaintiffs filed an amended complaint on February 25, 2008. The amended complaint again names as defendants us, Jordan Wu, and Max Chan, and adds Chairman Biing-Seng Wu, our former director Jung-Chun Lin and CMO as defendants. The amended complaint alleges that defendants violated Sections 11 and 15 of the Securities Act by failing to disclose certain facts related to CMO’s inventory. Plaintiffs seek unspecified damages, attorney’s fees and expenses, and rescission of the initial public offering.

On January 22, 2009, we entered into a settlement agreement to settle the class action lawsuit, which must be approved by the court, following notice to members of the settlement class. The court issued an order of preliminary approval on April 23, 2009 and issued an order on September 24, 2009 granting final approval of the settlement agreement. The settlement resulted in a dismissal of all claims against us and the other defendants. In entering into the settlement agreement, the defendants explicitly denied any liability or wrongdoing of any kind. The amount of the settlement is \$1.2 million, which was fully covered by our insurance carrier.

8.A.8. Dividends and Dividend Policy

Subject to the Cayman Islands Companies Law, we may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by our board of directors. Whether our board of directors recommends any dividends and the form, frequency and amount of dividends, if any, will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as the board of directors may deem relevant.

On June 27, 2008, we paid a cash dividend in the amount of \$66.8 million, or the equivalent of \$0.350 per ADS. In 2009, we paid a cash dividend on June 29, 2009 in the amount of \$55.5 million, or the equivalent of \$0.300 per ADS, and distributed a stock dividend on August 10, 2009 of 5,999 ordinary shares of par value \$0.0001 for each ordinary share of par value \$0.0001 held by shareholders of record as of August 7, 2009. On August 13, 2010, we paid a cash dividend in the amount of \$44.1 million, or the equivalent of \$0.250 per ADS. For more information on the stock dividend distribution, see “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders.” The dividends for any of these years should not be considered representative of the dividends that would be paid in any future periods or of our dividend policy.

Our ability to pay cash or stock dividends will depend, at least partially, upon the amount of funds received by us from our direct and indirect subsidiaries, which must comply with the laws and regulations of their respective countries and respective articles of association. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. In accordance with ROC laws and regulations and Himax Taiwan’s articles of incorporation, Himax Taiwan is permitted to distribute dividends after allowances have been made for:

- payment of taxes;
- recovery of prior years’ deficits, if any;
- legal reserve (in an amount equal to 10% of annual net income after having deducted the above items until such time as its legal reserve equals the amount of its total paid-in capital);
- special reserve based on relevant laws or regulations, or retained earnings, if necessary;
- dividends for preferred shares, if any; and
- cash or stock bonus to employees (in an amount less than 10% of annual net income) and remuneration for directors and supervisor(s) (in an amount less than 2% of the annual net income); after having deducted the above items, based on a resolution of the board of directors; if stock bonuses are paid to employees, the bonus may also be appropriated to employees of subsidiaries under the board of directors’ approval.

Furthermore, if Himax Taiwan does not record any net income for any year as determined in accordance with generally accepted accounting principles in Taiwan, it generally may not distribute dividends for that year.

Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, to the extent permitted by applicable law and regulations, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depositary bank to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

8.B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of the annual financial statements.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and Listing Details

Our ADSs have been quoted on the Nasdaq Global Select Market under the symbol “HIMX” since March 31, 2006. The table below sets forth, for the periods indicated, the high and low market prices and the average daily volume of trading activity on the Nasdaq Global Select Market for the shares represented by ADSs.

	<u>High</u>	<u>Low</u>	<u>Average Daily Trading Volume</u> <u>(in thousand of ADSs)</u>
2006 (from March 31)	\$9.45	\$4.21	813.4
2007	6.15	3.53	741.1
2008	6.29	1.00	590.1
2009	3.97	1.32	529.5
First quarter	3.27	1.32	328.5
Second quarter	3.80	2.47	708.8
Third quarter	3.97	2.91	544.8
Fourth quarter	3.32	2.16	529.3
2010	3.28	2.00	297.0
First quarter	3.20	2.72	270.5
Second quarter	3.28	2.66	369.2
Third quarter	3.10	2.30	243.8
Fourth quarter	2.50	2.00	304.3
November	2.40	2.04	240.1
December	2.37	2.00	455.3
2011			
First quarter	2.69	2.17	240.7
January	2.69	2.37	344.0
February	2.68	2.45	246.4
March	2.67	2.17	146.1
April	2.53	2.30	86.8
May (through May 19)	2.56	2.13	127.3

9.B. Plan of Distribution

Not applicable.

9.C. Markets

The principal trading market for our shares is the Nasdaq Global Select Market, on which our shares are traded in the form of ADSs.

In November 2009, we filed a listing application with the Taiwan Stock Exchange to list our ordinary shares on its main board, which was subsequently aborted in May 2010. Pursuant to the amendments to the Criteria Governing the Offering and Issuance of Securities by Foreign Issuers in Taiwan, which went into effect on May 19, 2010, we have become eligible to list TDRs on the Taiwan Stock Exchange. A major benefit of TDR listing for us, as opposed to primary listing, is that we would likely incur lower maintenance costs of listing in Taiwan because of the limited additional compliance requirements. We are currently preparing an application to list TDRs on the Taiwan Stock Exchange as an alternative to our aborted primary listing plan.

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not applicable.

10.B. Memorandum and Articles of Association

Our shareholders previously adopted the Amended and Restated Memorandum of Association on September 26, 2005 by a special resolution passed by the sole shareholder of our company and the Amended and Restated Articles of Association at an extraordinary shareholder meeting held on October 25, 2005, both of which were filed as an exhibit to our registration statement on Form F-1 (file no. 333-132372) with the SEC on March 13, 2006.

On August 6, 2009, our shareholders adopted the Second Amended and Restated Memorandum and Articles of Association at our annual general meeting which became effective on August 10, 2009 and were filed as exhibits to our current report on Form 6-K with the SEC on July 13, 2009. These were adopted primarily in connection with our proposed Taiwan listing to meet the Taiwan Stock Exchange's primary listing requirement concerning protection of material shareholders rights under ROC's Company Act and Securities Exchange Act. At the same time, our shareholders also adopted the Third Amended and Restated Memorandum and Articles of Association, which were filed as an exhibit to our annual report on Form 20-F for the fiscal year ended December 31, 2009 with the SEC on June 3, 2010 and are substantially the same as the Amended and Restated Memorandum and Articles of Association of our company except that our authorized share capital is stated to be \$300,000,000 divided into 1,000,000,000 shares of nominal or par value of \$0.3 each, on the condition that it shall become effective if the application made by our company to list its ordinary shares on the Taiwan Stock Exchange is rejected or aborted. On May 20, 2010, the Third Amended and Restated Memorandum and Articles of Association became effective as a result of the abortion of our primary listing application to the Taiwan Stock Exchange.

We incorporate by reference into this annual report the description of our Amended and Restated Memorandum and Articles of Association (except for provisions relating to our authorized share capital) contained in our F-1 registration statement (File No. 333-132372) filed with the SEC on March 13, 2006. Such description sets forth a summary of certain provisions of our memorandum and articles of association as currently in effect, which is qualified in its entirety by reference to the full text of the Third Amended and Restated Memorandum and Articles of Association. As of the date of this annual report, our authorized share capital is \$300,000,000 divided into 1,000,000,000 shares of nominal or par value of \$0.3 each.

10.C. Material Contracts

We are not currently, and have not been in the last two years, party to any material contract, other than contracts entered into in the ordinary course of business.

10.D. Exchange Controls

We have extracted from publicly available documents the information presented in this section. The information below may be applicable because our wholly owned operating subsidiary, Himax Technologies Limited, is incorporated in the ROC. Please note that citizens of the PRC and entities organized in the PRC are subject to special ROC laws, rules and regulations, which are not discussed in this section.

The ROC's Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle foreign exchange transactions by the Central Bank of ROC. There is an annual limit on the amount of currency a Taiwanese entity may convert into, or out of, NT dollars other than for trade purposes. Current regulations favor trade-related foreign exchange transactions.

With regard to inward and outward remittances, approval by the Central Bank of ROC is generally required for any conversion exceeding, in aggregate in each calendar year, \$50 million (or its equivalent) for companies and \$5 million (or its equivalent)

for Taiwanese and resident foreign individuals. A requirement is also imposed on all private enterprises to report all medium- and long-term foreign debt with the Central Bank of ROC.

In addition, a foreign person without an alien resident card or an unrecognized foreign entity may remit to and from Taiwan foreign currencies of up to \$100,000 per remittance if required documentation is provided to ROC authorities. This limit applies only to remittances involving a conversion between NT dollars and U.S. dollars or other foreign currencies.

10.E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income or gains or appreciations shall apply to us or our operations;
- (b) the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of 20 years from May 3, 2005.

United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of ordinary shares or ADSs, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds ordinary shares or ADSs as capital assets for tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding ordinary shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ordinary shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired our ordinary shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or

- persons holding ordinary shares or ADSs in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ordinary shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ordinary shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ordinary shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Please consult your own tax adviser concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ordinary shares or ADSs in your particular circumstances.

As used herein, a “U.S. Holder” is a beneficial owner of ordinary shares or ADSs that is, for U.S. federal tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder of ADSs will be treated for U.S. federal income tax purposes as the owner of the underlying ordinary shares represented by those ADSs. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depository shares are released before delivery of shares to the depository (“pre-release”) may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of American depository shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, described below, could be affected by actions taken by parties to whom ADSs are pre-released.

This discussion assumes that we are not, and will not become, a passive foreign investment company (as discussed below).

Taxation of Distributions

Distributions received by U.S. Holders with respect to the ordinary shares or ADSs, other than certain pro rata distributions of ordinary shares, will constitute foreign-source dividend income for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. We do not expect to maintain records of earnings and profits in accordance with U.S. federal income tax principles, and therefore it is expected that distributions will generally be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2013 may be taxable at favorable rates, up to a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the Nasdaq Global Select Market, where our ADSs are traded. Our ordinary shares are not traded on a securities market in the United States. Non-corporate U.S. Holders of our ordinary shares or ADSs should consult their own tax advisers regarding their eligibility for taxation at such favorable rates and whether they are subject to any special rules that limit their ability to be taxed at such favorable rates. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

Sale and Other Disposition of Ordinary Shares or ADSs

A U.S. Holder will generally recognize U.S.-source capital gain or loss for U.S. federal income tax purposes on the sale or other disposition of ordinary shares or ADSs, which will be long-term capital gain or loss if the ordinary

shares or ADSs were held for more than one year. The amount of gain or loss will be equal to the difference between the amount realized on the sale or other disposition and the U.S. Holder's tax basis in the ordinary shares or ADSs.

Passive Foreign Investment Company Rules

We believe that we were not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes for our taxable year ended December 31, 2010.

In general, a non-U.S. company will be a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. As PFIC status depends upon the composition of our income and assets and the market value of our assets (including, among other things, any equity investments in less than 25%-owned entities) from time to time, there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder held ordinary shares or ADSs, certain adverse U.S. federal income tax rules would apply on a sale or other disposition (including a pledge) of ordinary shares or ADSs by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ordinary shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the ordinary shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate for that taxable year, and an interest charge would be imposed on the tax attributable to such allocated amounts. Similar rules would apply to any distribution in respect of ordinary shares or ADSs to the extent in excess of 125% of the average of the annual distributions on ordinary shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the ordinary shares or ADSs. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we were a PFIC in a taxable year in which we pay a dividend or in the prior taxable year, the 15% dividend rate discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

For taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to interests held in stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of ordinary shares or ADSs.

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

It is possible to read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the reference rooms.

10.I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to interest rate risk for changes in interest rates is limited to the interest income generated by our cash deposited with banks.

Foreign Exchange Risk. The U.S. dollar is our reporting currency. The U.S. dollar is also the functional currency for the majority of our operations. In 2010, more than 99.0% of our sales and cost of revenues were denominated in U.S. dollars. However, in December 2010, approximately 66.3% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder denominated in U.S. dollars. We anticipate that we will continue to conduct substantially all of our sales in U.S. dollars. We do not believe that we have a material currency risk with regard to the NT dollar. We believe the majority of any potential adverse foreign currency exchange impacts on our operating assets may be offset by a potential favorable foreign currency exchange impact on our operating liabilities. From time to time we have engaged in, and may continue to engage in, forward contracts to hedge against our foreign currency exposure.

As of December 31, 2010, no foreign currency exchange contracts are outstanding.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Fees and Charges Payable by ADS Holders

To any person to whom ADSs are issued or to whom a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits, rights distributions or other distributions, and for each surrender of ADSs for cancellation and withdrawal of deposited securities including cash distributions made pursuant to a cancellation or withdrawal, the fee in each case is a fee not in excess of \$5.00 for each 100 ADSs, or any portion thereof, issued or surrendered. The depositary also charges a fee not in excess of \$2.00 per 100 ADSs for distribution of cash proceeds pursuant to a cash dividend (so long as the charging of such fee is not prohibited by any exchange upon which the ADSs are listed), sale of rights and other entitlements not made pursuant to a cancellation or withdrawal or otherwise. The depositary may also charge an annual fee of \$0.02 or less per ADS for the operation and maintenance costs in administering the facility, provided, however, that if the depositary imposes such fee, such fee, combined with any fee imposed for the distribution of cash proceeds pursuant to a cash dividend, shall not exceed \$0.02 per ADS in any calendar year. In addition, holders, beneficial owners, persons depositing shares and persons surrendering ADSs for cancellation and withdrawal of deposited securities will be required to pay the following:

- taxes and other governmental charges incurred by the depository or the custodian on any ADSs or underlying shares, including any applicable interest and penalties thereon, and any stock transfer or other taxes and other governmental charges;
- cable, telex, facsimile and electronic transmission and delivery expenses
- transfer or registration fees for the registration of transfer of shares or other deposited securities with any applicable registrar in connection with the deposit or withdrawal of deposited securities and transfer of shares or other deposited securities to or from the name of the custodian, the depository or any nominees upon the making of deposits and withdrawals;
- expenses and charges of the depository in connection with the conversion of foreign currency into U.S. dollars;
- fees and expenses incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares, deposited securities, ADSs and ADRs;
- fees and expenses incurred by the depository in connection with the delivery of the deposited securities, including any fees of a central depository for securities in the local market, where applicable; and
- any other additional fees, charges, costs or expenses that may be incurred by the depository from time to time.

In the case of cash distributions, fees and charges of, and expenses incurred by, the depository and taxes, duties or other governmental charges required to be withheld by the depository, the custodian or our company are generally deducted from the cash being distributed. Service fees may be collected from holders of ADSs in a manner determined by the depository with respect to ADSs registered in the name of investors (whether certificated or in book-entry form) and ADSs held in brokerage and custodian accounts (via The Depository Trust and Clearing Corporation, or DTC). In the case of distributions other than cash (i.e., stock dividends, rights, etc.), the depository charges the applicable ADS record date holder concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or in book-entry form), the depository sends invoices to the applicable record date ADS holders.

In the case of ADSs held in brokerage and custodian accounts (via DTC), the depository may, if permitted by the settlement systems provided by DTC, collect the fees through such settlement systems (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in such case may in turn charge their clients' accounts the amount of the service fees paid to the depository.

If any tax or other governmental charge shall become payable by the depository or the custodian with respect to any ADSs, ADRs or deposited securities, such tax or other governmental charge shall be payable by the holders and beneficial owners of ADSs to the depository. The depository, the custodian or our company may withhold or deduct from any distributions made in respect of deposited securities and may sell, by public or private sale, for the account of the holder and/or beneficial owner any or all of the deposited securities and apply such distributions and sale proceeds in payment of such taxes (including applicable interest and penalties) or charges, with the holder and the beneficial owner thereof remaining fully liable for any deficiency. The custodian may refuse the deposit of shares, and the depository may refuse to issue ADSs, to deliver ADRs, register the transfer, split-up or combination of ADSs and the withdrawal of deposited securities, until payment in full of such tax, charge, penalty or interest is received.

Fees and Other Payments from the Depository to Us

In September 2010, we received a payment of \$0.5 million from the depository relating to the ADR program, which was intended to cover certain of our expenses incurred in relation to the ADR program for the year, including:

- legal, audit and other fees incurred in connection with preparation of Form 20-F and annual reports and ongoing SEC compliance and listing requirements;

- director and officer insurance;
- stock exchange listing fees;
- non-deal roadshow expenses;
- costs incurred by financial printer and share certificate printer;
- postage for communications to ADR holders;
- costs of retaining third party public relations, investor relations, and/or corporate communications advisory firms in the U.S.; and
- costs incurred in connection with participation in retail investor shows and capital markets days.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

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, 2010 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, 2010.

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, 2010, 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, 2010, 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 audits.

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, 2010, 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 2009, 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, 2010, and our report dated May 11, 2011 expressed an unqualified opinion on those consolidated financial statements.

Changes in Internal Control Over Financial Reporting

In 2010, 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 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Yuan-Chuan Horng is an audit committee financial expert, as that term is defined in Item 16A(b) of Form 20-F, and is independent for the purposes of Rule 5605(a)(2) of the Nasdaq Rules and Rule 10A-3 of the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We will provide a copy of our code of business conduct and ethics without charge upon written request to:

Himax Technologies, Inc.
Human Resources Department
No. 26, Zih Lian Road, Tree Valley Park
Sinshih District, Tainan City 74148
Taiwan, Republic of China

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG, our independent registered public accounting firm, began serving as our auditor upon the formation of our company in 2001.

Our audit committee is responsible for the oversight of KPMG's work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by KPMG, including audit services, audit-related services, tax services and other services.

We paid the following fees for professional services to KPMG for the years ended December 31, 2009 and 2010.

Services	Year ended December 31,	
	2009	2010
Audit Fees ⁽¹⁾	\$ 786,000	\$ 936,000
All Other Fees ⁽²⁾	17,000	3,300
Tax Fees ⁽³⁾	-	1,700
Total	\$ 803,000	\$ 941,000

Notes: (1) Audit Fees. This category includes the audit of our annual financial statements and internal control over financial reporting, review of quarterly financial statements, services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years and Taiwan listing program. This category also includes statutory audits required by the Tax Bureau of the ROC.

(2) All Other Fees. This category consists of fees for the preparation of transfer pricing reports.

(3) Tax Fees. This category consists of fees for general tax planning and advice.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On November 1, 2007, our board of directors authorized a share buyback program allowing us to repurchase up to \$40.0 million of our ADSs in the open market or through privately negotiated transactions. We concluded this share buyback program in the first quarter of 2008 and repurchased a total of approximately \$33.1 million of our ADSs (equivalent to approximately 7.7 million ADSs) from the open market.

On November 14, 2008, our board of directors authorized another share buyback program allowing us to repurchase up to \$50.0 million of our ADSs in the open market or through privately negotiated transactions. We concluded this share buyback program in the third quarter of 2010 and repurchased a total of approximately \$50.0 million of our ADSs (approximately 19.3 million ADSs) under this program from the open market.

The following table sets forth information regarding transactions completed under the two share buyback programs for each of the specified periods.

Period	(a) Total Number of ADSs Purchased	(b) Average Price Paid per ADS	(c) Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of ADSs That May Yet Be Purchased Under the Plans or Programs
2007 Share Buyback Program:				
November 8, 2007 to November 30, 2007	3,973,514	\$ 4.38	3,973,514	\$ 22,612,902
December 1, 2007 to December 31, 2007	2,595,594	\$ 4.23	6,569,108	\$ 11,633,090
January 1, 2008 to January 31, 2008	849,914	\$ 4.24	7,419,022	\$ 8,025,902
March 1, 2008 to March 18, 2008	224,128	\$ 4.67	7,643,150	\$ 6,980,313
July 1, 2008 to July 17, 2008	21,300	\$ 4.21	7,664,450	\$ 6,890,632
2008 Share Buyback Program:				
November 17, 2008 to November 30, 2008	561,411	\$ 1.52	561,411	\$ 49,144,319
December 1, 2008 to December 31, 2008	1,807,680	\$ 1.35	2,369,091	\$ 46,695,254
January 1, 2009 to January 31, 2009	1,243,903	\$ 1.58	3,612,994	\$ 44,728,654
February 1, 2009 to February 28, 2009	928,621	\$ 1.70	4,541,615	\$ 43,152,903
March 1, 2009 to March 31, 2009	643,884	\$ 2.12	5,185,499	\$ 41,785,487
April 1, 2009 to April 30, 2009	1,580,525	\$ 2.73	6,766,024	\$ 37,466,191
May 1, 2009 to May 18, 2009	734,939	\$ 2.67	7,500,963	\$ 35,501,073
July 8, 2009 to July 31, 2009	979,039	\$ 3.63	8,480,002	\$ 31,946,031
August 3, 2009 to August 31, 2009	1,734,252	\$ 3.41	10,214,254	\$ 26,029,399
September 1, 2009 to September 29, 2009	1,403,787	\$ 3.36	11,618,041	\$ 21,306,237
October 1, 2009 to October 30, 2009	1,574,538	\$ 2.99	13,192,579	\$ 16,590,908
November 2, 2009 to November 30, 2009	1,482,205	\$ 2.44	14,674,784	\$ 12,978,152
December 2, 2009 to December 31, 2009	819,558	\$ 2.91	15,494,342	\$ 10,597,029
January 22, 2010 to January 29, 2010	280,237	\$ 2.95	15,774,579	\$ 9,769,423
February 1, 2010 to February 26, 2010	752,978	\$ 2.90	16,527,557	\$ 7,586,933
March 2, 2010 to March 19, 2010	207,150	\$ 2.99	16,734,707	\$ 6,967,341
May 5, 2010 to May 25, 2010	780,239	\$ 2.81	17,514,946	\$ 4,772,512
June 2, 2010 to June 30, 2010	234,007	\$ 2.98	17,748,953	\$ 4,074,515
July 1, 2010 to July 26, 2010	362,497	\$ 2.96	18,111,450	\$ 3,002,786
August 5, 2010 to August 31, 2010	1,092,118	\$ 2.43	19,203,568	\$ 350,516
September 1, 2010 to September 7, 2010	144,800	\$ 2.42	19,348,368	\$ 25

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The Nasdaq Rules provide that foreign private issuers may follow home country practice in lieu of the corporate governance requirements of the Nasdaq Stock Market LLC, subject to certain exceptions and requirements and except to the extent that such exemptions would be contrary to U.S. federal securities laws and regulations. The significant differences between our corporate governance practices and those followed by U.S. companies under the Nasdaq Rules are summarized as follows:

- We follow home country practice that permits our board of directors to have less than a majority of independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(b)(1) of the Nasdaq Rules that require boards of U.S. companies to have a board of directors which is comprised of a majority of independent directors.
- We follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).
- We follow home country practice that permits a compensation committee to contain a director who does not meet the definition of “independence” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(d)(1)(B) and (2)(B) of the Nasdaq Rules which requires the compensation committees of U.S. companies to be comprised solely of independent directors.
- We follow home country practice that permits a nominations committee to contain a director who does not meet the definition of “independence” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(e)(1)(B) of the Nasdaq Rules that requires the nominations committees of U.S. companies be comprised solely of independent directors.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

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 May 11, 2011.
- (b) Consolidated Balance Sheets of the Company and subsidiaries as of December 31, 2009 and 2010.
- (c) Consolidated Statements of Income of the Company and subsidiaries for the years ended December 31, 2008, 2009 and 2010.
- (d) Consolidated Statements of Comprehensive Income of the Company and subsidiaries for the years ended December 31, 2008, 2009 and 2010.
- (e) Consolidated Statements of Equity of the Company and subsidiaries for the years ended December 31, 2008, 2009 and 2010.
- (f) Consolidated Statements of Cash Flows of the Company and subsidiaries for the years ended December 31, 2008, 2009 and 2010.
- (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*	Agreement and Plan of Merger dated November 8, 2010 among Himax Display, Inc., Spatial Photonics, Inc. and Wen Hsieh.
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 Jessica Pan, Acting Chief Financial Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification 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.

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

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

HIMAX TECHNOLOGIES, INC.

By: /s/ Jordan Wu
Name: Jordan Wu
Title: President and Chief Executive Officer

Date: May 20, 2011

HIMAX TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2009 and 2010	F-2
Consolidated Statements of Income for the Years Ended December 31, 2008, 2009 and 2010	F-4
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2008, 2009 and 2010	F-5
Consolidated Statements of Equity for the Years Ended December 31, 2008, 2009, and 2010	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2009 and 2010	F-9
Notes to Consolidated Financial Statements	F-11

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, 2009 and 2010, 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, 2010. 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, 2009 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U. S. generally accepted accounting principles.

As described in the Notes 2(n) and 13 to the consolidated financial statements, the Company adopted the measurement date provisions of Accounting Standards Codification ("ASC") Subtopic 715-20 ("ASC 715-20"), "*Compensation-Retirement Benefits-Defined Benefit Plans*", as of December 31, 2008.

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, 2010, 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 May 11, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG
Taipei, Taiwan (the Republic of China)
May 11, 2011

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2010
(in thousands of US dollars)

	December 31,	
	2009	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 110,924	96,842
Investments in marketable securities available-for-sale	10,730	8,632
Accounts receivable, less allowance for doubtful accounts, sales returns and discounts of \$26,327 and \$17,180 at December 31, 2009 and 2010, respectively	64,496	80,212
Accounts receivable from related parties, less allowance for sales returns and discounts of \$158 and \$138 at December 31, 2009 and 2010, respectively	138,172	95,964
Inventories	67,768	117,988
Deferred income taxes	17,491	11,977
Restricted cash and cash equivalents	-	58,500
Prepaid expenses and other current assets	14,216	15,809
Total current assets	423,797	485,924
Investment securities, including securities measured at fair value of \$0 and \$5,196 at December 31, 2009 and 2010, respectively	11,619	24,622
Equity method investments	586	869
Property, plant and equipment, net	51,586	47,561
Deferred income taxes	24,548	24,729
Goodwill	26,846	26,846
Intangible assets, net	8,872	6,674
Restricted marketable securities	1,094	172
Other assets	1,500	2,223
	126,651	133,696
Total assets	\$ 550,448	619,620

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2009 and 2010
(in thousands of US dollars, except share and per share data)

	December 31,	
	2009	2010
Liabilities and Equity		
Current liabilities:		
Short-term debt	\$ -	57,000
Accounts payable	88,079	115,922
Income taxes payable	14,147	9,125
Deferred income taxes	-	96
Other accrued expenses and other current liabilities	18,425	23,605
Total current liabilities	120,651	205,748
Income taxes payable	902	133
Accrued pension liabilities	91	168
Deferred income taxes	2,217	1,215
Other liabilities	2,515	5,380
Total liabilities	126,376	212,644
Equity		
Himax Technologies, Inc. stockholders' equity:		
Ordinary shares, US\$0.3 par value, 1,000,000,000 shares authorized; 358,012,184 shares and 353,842,764 shares issued and outstanding at December 31, 2009 and 2010, respectively	107,404	106,153
Additional paid-in capital	102,924	100,291
Accumulated other comprehensive income	4	1,204
Unappropriated retained earnings	209,121	198,230
Total Himax Technologies, Inc. stockholders' equity	419,453	405,878
Noncontrolling interests	4,619	1,098
Total equity	424,072	406,976
Commitments and contingencies		
Total liabilities and equity	\$ 550,448	619,620

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars, except per share data)

	Year Ended December 31,		
	2008	2009	2010
Revenues			
Revenues from third parties, net	\$ 312,336	245,075	304,068
Revenues from related parties, net	520,463	447,306	338,624
	<u>832,799</u>	<u>692,381</u>	<u>642,692</u>
Costs and expenses:			
Cost of revenues	628,693	550,556	507,647
Research and development	87,574	71,364	76,426
General and administrative	19,353	16,346	18,770
(Recovery of) bad debt expense	25,305	218	(8,788)
Sales and marketing	11,692	10,360	13,279
Total costs and expenses	<u>772,617</u>	<u>648,844</u>	<u>607,334</u>
Operating income	<u>60,182</u>	<u>43,537</u>	<u>35,358</u>
Non operating income (loss):			
Interest income	3,315	766	607
Gain (loss) on sale of marketable securities, net	913	(87)	296
Equity in losses of equity method investees	-	(89)	(410)
Foreign currency exchange losses, net	(844)	(510)	(899)
Interest expense	-	(3)	(182)
Other income, net	469	111	524
	<u>3,853</u>	<u>188</u>	<u>(64)</u>
Earnings before income taxes	<u>64,035</u>	<u>43,725</u>	<u>35,294</u>
Income tax expense (benefit)	(8,689)	7,915	6,228
Net income	<u>72,724</u>	<u>35,810</u>	<u>29,066</u>
Net loss attributable to noncontrolling interests	<u>3,657</u>	<u>3,840</u>	<u>4,140</u>
Net income attributable to Himax Technologies, Inc. stockholders	<u>\$ 76,381</u>	<u>39,650</u>	<u>33,206</u>
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	<u>\$ 0.20</u>	<u>0.11</u>	<u>0.09</u>
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	<u>\$ 0.20</u>	<u>0.11</u>	<u>0.09</u>

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars)

	Year Ended December 31,		
	2008	2009	2010
Net income	\$ 72,724	35,810	29,066
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	943	(193)	1,511
Reclassification adjustment for realized losses (gains) included in net income	(913)	87	(296)
Foreign currency translation adjustments, not subject to income tax	(295)	463	210
Net unrecognized actuarial loss, net of tax of \$(20), \$(18) and \$(54) in 2008, 2009 and 2010, respectively	(67)	(22)	(203)
Comprehensive income	72,392	36,145	30,288
Comprehensive loss attributable to noncontrolling interests	3,682	3,823	4,118
Comprehensive income attributable to Himax Technologies, Inc. stockholders	\$ 76,074	39,968	34,406

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Equity

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars and shares, except per share data)

	Ordinary shares		Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Un- appropriated retained earnings	Total Himax Technologies, Inc. stockholders' equity	Non- controlling interests	Total Equity
	Shares	Amount							
Balance at January 1, 2008	383,959	\$ 115,188	120,725	-	(7)	215,403	451,309	11,089	462,398
Shares acquisition	(6,929)	-	-	(8,372)	-	-	(8,372)	-	(8,372)
Shares retirement	-	(2,079)	(6,293)	8,372	-	-	-	-	-
Restricted stock granted	3,209	963	(963)	-	-	-	-	-	-
Share-based compensation expenses	-	-	8,937	-	-	-	8,937	149	9,086
New shares issued by subsidiary	-	-	2,040	-	-	-	2,040	(917)	1,123
Sale of subsidiary shares to noncontrolling interests	-	-	-	-	-	-	-	196	196
Net unrecognized actuarial loss, net of tax of \$(20)	-	-	-	-	(49)	-	(49)	(18)	(67)
Unrealized holding gains (losses) on available-for-sale marketable securities	-	-	-	-	36	-	36	(6)	30
Foreign currency translation adjustments	-	-	-	-	(294)	-	(294)	(1)	(295)
Declaration of cash dividends, \$0.175 per share	-	-	-	-	-	(66,817)	(66,817)	-	(66,817)
Net income (loss)	-	-	-	-	-	76,381	76,381	(3,657)	72,724
Balance at December 31, 2008	380,239	114,072	124,446	-	(314)	224,967	463,171	6,835	470,006

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Equity (Continued)

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars and shares, except per share data)

	Ordinary shares		Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Un-appropriated retained earnings	Total Himax Technologies, Inc. stockholders' equity	Non-controlling interests	Total Equity
	Shares	Amount							
Shares acquisition	(26,251)	-	-	(36,462)	-	-	(36,462)	-	(36,462)
Shares retirement	-	(7,875)	(28,587)	36,462	-	-	-	-	-
Restricted stock granted	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)
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

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Equity (Continued)

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars and shares, except per share data)

	Ordinary shares		Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Un- appropriated retained earnings	Total Himax Technologies, Inc. stockholders' equity	Non- controlling interests	Total Equity
	Shares	Amount							
Shares acquisition	(7,708)	-	-	(10,755)	-	-	(10,755)	-	(10,755)
Shares retirement	-	(2,312)	(8,443)	10,755	-	-	-	-	-
Restricted stock granted	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, \$0.125 per share	-	-	-	-	-	(44,097)	(44,097)	-	(44,097)
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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars)

	Year Ended December 31,		
	2008	2009	2010
Cash flows from operating activities:			
Net income	\$ 72,724	35,810	29,066
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,318	13,795	13,626
Bad debt expense	25,305	218	-
Share-based compensation expenses	9,086	8,553	6,311
Loss on disposal of property and equipment	89	43	34
Gain on disposal of subsidiary shares, net	(341)	-	-
Loss (gain) on disposal of marketable securities, net	(913)	87	(296)
Unrealized gain on conversion option	-	-	(320)
Interest income from amortization of discount on investment in corporate bonds	-	-	(52)
Equity in losses of equity method investees	-	89	410
Deferred income tax expense (benefit)	(12,348)	1,448	4,481
Inventories write downs	18,028	13,622	10,557
Changes in operating assets and liabilities:			
Accounts receivable	12,342	(13,686)	(14,782)
Accounts receivable from related parties	89,850	(33,685)	41,306
Inventories	1,371	14,401	(60,777)
Prepaid expenses and other current assets	8,012	(2,300)	(1,590)
Accounts payable	(93,301)	34,360	27,843
Income taxes payable	(3,206)	(880)	(5,793)
Other accrued expenses and other current liabilities	(2,516)	2,452	4,767
Other liabilities	-	(697)	2,840
Net cash provided by operating activities	136,500	73,630	57,631
Cash flows from investing activities:			
Purchase of property and equipment	(17,490)	(10,592)	(7,172)
Proceeds from disposal of property and equipment	32	25	-
Purchase of available-for-sale marketable securities	(68,892)	(34,248)	(34,976)
Disposal of available-for-sale marketable securities	71,172	39,263	33,443
Purchase of investment securities	(4,481)	-	(7,524)
Purchase of equity method investments	-	(663)	(906)
Refund from (increase in) refundable deposits	(86)	(217)	298
Increase in other assets	-	(7)	(684)
Pledge of restricted cash, cash equivalents and marketable securities	(2,065)	(1,002)	(57,578)
Purchase of intangible assets	-	(100)	-
Net cash used in investing activities	(21,810)	(7,541)	(75,099)

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended December 31, 2008, 2009 and 2010
(in thousands of US dollars)

	Year Ended December 31,		
	2008	2009	2010
Cash flows from financing activities:			
Distribution of cash dividends	\$ (66,817)	(55,496)	(44,097)
Proceeds from disposal of subsidiary shares to noncontrolling interests by Himax Technologies Limited	719	529	1,011
Purchase of subsidiary shares from noncontrolling interests	(673)	(243)	(207)
Proceeds from issuance of new shares by subsidiaries	1,123	1,027	353
Payments to acquire ordinary shares for retirement	(8,656)	(36,596)	(10,755)
Proceeds from borrowing of short-term debt	-	80,000	217,000
Repayment of short-term debt	-	(80,000)	(160,000)
Net cash provided by (used in) financing activities	(74,304)	(90,779)	3,305
Effect of foreign currency exchange rate changes on cash and cash equivalents	34	414	81
Net increase (decrease) in cash and cash equivalents	40,420	(24,276)	(14,082)
Cash and cash equivalents at beginning of year	94,780	135,200	110,924
Cash and cash equivalents at end of year	\$ 135,200	110,924	96,842
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ -	3	170
Income taxes	\$ 7,175	7,652	8,329

See accompanying notes to consolidated financial statements

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008, 2009 and 2010

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:

<u>Subsidiary</u>	<u>Main activities</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Ownership December 31,</u>	
			<u>2009</u>	<u>2010</u>
Himax Technologies Limited	IC design and sales	ROC	100.00%	100.00%
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	88.73%	87.96%
Integrated Microdisplays Limited	IC design and sales	Hong Kong	88.73%	87.96%
Himax Analogic, Inc.	IC design and sales	ROC	77.56%	75.11%
Himax Imaging, Inc.	Investments	Cayman Islands	94.80%	93.37%
Himax Imaging, Ltd.	IC design and sales	ROC	94.80%	93.37%
Himax Imaging Corp.	IC design and sales	California, USA	94.80%	93.37%
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	77.91%	78.11%

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2009 and 2010**

Subsidiary	Main activities	Jurisdiction of Incorporation	Percentage of Ownership December 31,	
			2009	2010
Himax Media Solutions (Hong Kong) Limited	Investments	Hong Kong	77.91%	78.11%
Harvest Investment Limited	Investments	ROC	-	100.00%

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 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(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, 2009 and 2010, the Company had \$87,600 thousand and \$77,500 thousand of cash equivalents, respectively, in US dollar denominated time deposits with original maturities of less than three months. As of December 31, 2010, cash in the amount of \$13,500 thousand and time deposits in the amount of \$45,000 thousand had been pledged as collateral for short term debts and guarantees for Government grants which would be released within one year and are therefore excluded from cash and cash equivalents for purpose of the consolidated statements of cash flows.

(d) Investment Securities

Investment securities as of December 31, 2009 and 2010 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.

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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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, 2009 and 2010, the Company had \$1,094 thousand and \$172 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.

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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 results 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 collectibility 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.

(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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(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 the assets which range as follows: building 25 years, building improvements 4 to 16 years, machinery and equipment 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, which for the Company is the enterprise as a whole. 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. Management considers the enterprise as a whole to be the reporting unit for purpose of evaluating goodwill impairment and consequently, the Company's market capitalization based on the quoted market price of the Company's ordinary shares is a primary part of the fair value measurement, and is adjusted by management's estimate of an appropriate control premium. In addition, other valuation techniques such the discounted present value of future cash flows, maybe be considered by management as necessary to validate in management's estimation of the fair value of the Company using the adjusted market capitalization approach.

The Company performs its annual impairment review of goodwill at October 31, and when a triggering event occurs between annual impairment tests. During 2008, 2009 and 2010, management performed its impairment testing of goodwill and concluded that there was no impairment in all years.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(i) Intangible Assets

Acquired intangible assets include patents, developed technology and customer relationship assets at December 31, 2009 and 2010. 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.

(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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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, 2008, 2009 and 2010, were \$20 thousand, \$21 thousand and \$161 thousand, respectively.

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.

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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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.

(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 carryforwards. 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).

Foreign currency denominated monetary assets and liabilities are remeasured into functional currency at end-of-period exchange rates. Gains or losses from foreign currency transactions are included in other income (loss) in the accompanying consolidated statements of income.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2009 and 2010**

(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.

As further described in the Note 15 (a) to the consolidated financial statements, in August 2009 a recapitalization plan including a stock split in the form of a dividend and a shares consolidation was approved and executed. All references in the accompanying consolidated financial statements and notes to the number of shares outstanding, per share amounts and share data of the Company's ordinary shares have been retroactively adjusted to reflect the effect of the stock split and shares consolidation for all periods presented.

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

	Year Ended December 31,		
	2008	2009	2010
Net income attributable to Himax Technologies, Inc. stockholders (in thousands)	\$ 76,381	39,650	33,206
Denominator for basic earnings per ordinary share:			
Weighted average number of ordinary shares outstanding (in thousands)	383,229	369,652	355,037
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$ 0.20	0.11	0.09

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 2008, the unvested 3,122,590 RSUs (represents 6,245,180 ordinary shares) which will vest during 2009, 2010 and 2011 were excluded as their effect would be anti-dilutive. 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

	Year Ended December 31,		
	2008	2009	2010
Net income attributable to Himax Technologies, Inc. stockholders (in thousands)	\$ 76,381	39,650	33,206
Denominator for diluted earnings per ordinary share:			
Weighted average number of ordinary shares outstanding (in thousands)	383,229	369,652	355,037
Unvested RSUs (in thousands)	524	577	653
	<u>383,753</u>	<u>370,229</u>	<u>355,690</u>
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	<u>\$ 0.20</u>	<u>0.11</u>	<u>0.09</u>

(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) Noncontrolling Interests

Noncontrolling interests are classified in the consolidated statements of income as part of consolidated net income and the accumulated amount of noncontrolling 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 remeasured with the gain or loss reported in net earnings.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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,		
	2008	2009	2010
Net income attributable to Himax Technologies, Inc. stockholders	\$ 76,381	39,650	33,206
Transfers (to) from the noncontrolling interests:			
Increase in Himax Technologies, Inc.'s paid-in capital for sale of shares of Himax Display, Himax Analogic and Himax Media Solutions	-	285	652
Increase in Himax Technologies, Inc.'s paid-in capital for new shares issued by Himax Display, and Himax Media Solutions	2,040	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	2,040	78	652
Change from net income attributable to Himax Technologies, Inc. stockholders and transfers from noncontrolling interests	\$ 78,421	39,728	33,858

(t) Fair Value Measurements

On January 1, 2008, the Company adopted ASC 820 (SFAS No. 157), *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 (SFAS No. 157) defines fair value 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. ASC 820 (SFAS No. 157) also establishes a framework for measuring fair value and expands disclosures about fair value measurements. See Note 17.

On January 1, 2009, the Company adopted ASC 820 (SFAS No. 157) to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

(u) Reclassifications

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Note 3. Investments in Marketable Securities Available-for sale

Following is a summary of marketable securities as of December 31, 2009 and 2010:

	December 31, 2009			Aggregate Market Value
	Aggregate Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Time deposit with original maturities more than three months	\$ 2,212	6	-	2,218
Open-ended bond fund	8,469	43	-	8,512
Total	\$ 10,681	49	-	10,730

	December 31, 2010			Aggregate Market Value
	Aggregate Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
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

The Company's portfolio of available for sale marketable securities by contractual maturity or the expected holding period as of December 31, 2009 and 2010 is due in one year or less.

Information on sales of available for sale marketable securities for the years ended December 31, 2008, 2009 and 2010 is summarized below.

Period	Proceeds from sales	Gross realized gains	Gross realized losses
	(in thousands)		
Year ended December 31, 2008	\$ 71,172	1,060	(147)
Year ended December 31, 2009	\$ 39,263	179	(266)
Year ended December 31, 2010	\$ 33,443	326	(30)

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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, 2008, 2009 and 2010 follows:

Allowance for doubtful accounts

Period	Balance at beginning of year	Charges (credits) to earnings	Amounts utilized	Balance at end of year
	(in thousands)			
For the year ended December 31, 2008	\$ -	25,305	(8)	25,297
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

Allowance for sales returns and discounts

Period	Balance at beginning of year	Additions	Amounts utilized	Balance at end of year
	(in thousands)			
For the year ended December 31, 2008	\$ 493	1,657	(1,988)	162
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

Note 5. Equity Method Investments

As of December 31, 2009 and 2010, equity method investments consisted of the following:

	December 31,			
	2009		2010	
	Amount	Holding %	Amount	Holding %
Hangzhou Crystal Display Technology Co., Ltd.	\$ 284	30.00	125	30.00
Shinyoptics Corp.	302	15.15	-	-
Create Electronic Optical Co., Ltd.	-	-	744	21.11
	<u>\$ 586</u>		<u>869</u>	

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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, 15.15% of the outstanding ordinary shares of Shinyoptics Corp. (Shinyoptics, newly incorporated in July, 2009) that were purchased in September 2009 and Create Electronic Optical Co., Ltd. (C.E.O.) that were purchased in March 2010. Crystal and Shinyoptics are LCOS project module companies and C.E.O. is a camera module supplier.

Since October 1, 2010, the Company had no seat on Shinyoptics' board of directors and lost the ability to exercise significant influence over Shinyoptics. Therefore, the Company ceased to apply equity method on its investment in Shinyoptics.

There is no difference between the Company's cost and the Company's share of net assets of equity method investees on investments in Crystal and Shinyoptics.

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, 2010, 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 \$303 thousand.

As of December 31, 2010, it was not practicable for management to estimate the fair value of the Company's investments in Crystal and 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 these investments.

Note 6. Inventories

As of December 31, 2009 and 2010, inventories consisted of the following:

	December 31,	
	2009	2010
	(in thousands)	
Finished goods	\$ 27,802	38,709
Work in process	28,043	66,271
Raw materials	11,874	12,987
Supplies	49	21
	<u>\$ 67,768</u>	<u>117,988</u>

Inventory write-downs were \$18,028 thousand, \$13,622 thousand and \$10,557 thousand for the years ended December 31, 2008, 2009 and 2010, respectively, and are included in cost of revenues.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Note 7. Goodwill and Intangible Assets

(a) Intangible Assets

	December 31, 2009		
	Gross carrying amount	Weighted average amortization period	Accumulated amortization
	(in thousands)		
Technology	\$ 6,339	7 years	2,723
Customer relationship	8,100	7 years	3,375
Patents	842	6 years	311
Total	\$ 15,281		6,409

	December 31, 2010		
	Gross carrying amount	Weighted average amortization period	Accumulated amortization
	(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

Amortization expense for the years ended December 31, 2008, 2009 and 2010, was \$2,140 thousand, \$2,193 thousand and \$2,198 thousand, respectively. Estimated amortization expense for the next five years is \$2,180 thousand in 2011, \$2,126 thousand in 2012 and 2013, \$177 thousand in 2014, and \$7 thousand in 2015.

(b) Goodwill

Goodwill is tested for impairment annually or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. The Company has a single reporting unit for goodwill impairment testing purposes, which is the enterprise as a whole.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

During the fourth quarter of 2008, the worldwide financial crisis has adversely contributed to the decline in the Company's quoted share price. At December 31, 2008, the market capitalization of the Company was lower than its equity book value. Consequently, management performed an evaluation at the 2008 year-end to assess potential impairment of the Company's goodwill based on the Company's adjusted market capitalization at December 31, 2008. Specifically, management adjusted the Company's market capitalization by an appropriate control premium to derive at the estimated fair value of the Company. Management believes that the control premium represents the additional amount per share market participants 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, management referenced MergerStat database and Standard Industrial Classification (SIC) to identify comparable merger and acquisition transactions in 2008 in the Company's industry. Management further believes that the control premium has increased under the current market conditions due to the significant volatility of the Company's share price that may have distorted the market capitalization as a measure of fair value at 2008 year-end. Furthermore, management validated the results of adjusted market capitalization valuation approach with the results of an income approach of measuring the fair value of the Company. Based on management's assessment, the Company's fair value exceeded the net book value of the Company at December 31, 2008. At October 31, 2009 and 2010, the annual goodwill impairment evaluation date, the fair value of the reporting unit, based on the quoted market price of the Company's shares, is higher than its carrying amount. Therefore, management concluded that goodwill was not impaired.

Note 8. Property, Plant and Equipment

	December 31,	
	2009	2010
	(in thousands)	
Land	\$ 10,154	10,154
Building and improvements	17,084	17,199
Machinery	18,828	21,195
Research and development equipment	15,008	16,484
Software	9,875	10,267
Office furniture and equipment	6,107	6,463
Others	7,712	10,029
	84,768	91,791
Accumulated depreciation and amortization	(34,388)	(45,582)
Prepayment for purchases of equipment	1,206	1,352
	\$ 51,586	47,561

Depreciation and amortization of these assets for the years ended December 31, 2008, 2009 and 2010, was \$10,178 thousand, \$11,602 thousand and \$11,428 thousand, respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

(a) Investments in Non-marketable Equity Securities

Following is a summary of such investments which are accounted for using the cost method as of December 31, 2009 and 2010:

	December 31,	
	2009	2010
	(in thousands)	
Chi Lin Technology Co. Ltd.	\$ 1,057	1,057
Jetronics International Corp.	1,600	1,600
C Company	8,962	8,962
Spatial Photonics, Inc.	-	6,500
eTurboTouch Technology Inc.	-	715
Oculon Optoelectronics Inc.	-	309
Shinyoptics Corp.	-	283
	\$ 11,619	19,426

As of December 31, 2010, 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:

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

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

Note 10. Other Accrued Expenses and Other Current Liabilities

	December 31,	
	2009	2010
	(in thousands)	
Accrued mask, mold fees and other expenses for RD	\$ 6,254	7,080
Payable for purchases of equipment	529	739
Accrued software maintenance	1,550	1,700
Accrued payroll and related expenses	2,951	3,356
Accrued professional service fee	1,268	1,438
Accrued warranty costs	679	679
Accrued insurance, welfare expenses, etc.	5,194	8,613
	<u>\$ 18,425</u>	<u>23,605</u>

The movement in accrued warranty costs for the years ended December 31, 2008, 2009 and 2010 is as follows:

Period	Balance at beginning of year	Additions charged to expense	Amounts utilized	Balance at end of year
		(in thousands)		
Year ended December 31, 2008	\$ 335	1,526	(1,612)	249
Year ended December 31, 2009	\$ 249	2,920	(2,490)	679
Year ended December 31, 2010	\$ 679	3,772	(3,772)	679

Note 11. Short-Term Debts

Short-term debts are bank loans with interest rates per annum that ranged from 0.62% to 0.70%, and cash and cash equivalents in the form of time deposits of totaling \$57,500 thousand are pledged as collateral.

As of December 31, 2010, unused credit lines amounted to \$61,661 thousand, which will expire between March 2011 and February 2012. Among which, \$301 thousand expired in March 2011.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 2008, 2009 and 2010 primarily for the development of certain new leading products or technologies. Details of these contracts are summarized below:

<u>Authority</u>	<u>Total Grant</u> (in thousands)	<u>Execution Period</u>	<u>Product Description</u>
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

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 2008, 2009 and 2010 were \$595 thousand, \$534 thousand and \$819 thousand, respectively.

Note 13. Retirement Plan

The Company has established a Defined Benefit Plan covering full-time employees in the ROC. 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 2008, 2009 and 2010, based on the contribution called for was \$1,362 thousand, \$1,354 thousand and \$1,507 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 \$151 thousand to its pension fund maintained with the Bank of Taiwan and \$2,860 thousand to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance in 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,	
	2009	2010
	(in thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 1,243	1,332
Service cost	-	-
Interest cost	31	29
Actuarial loss	58	352
Benefit obligation at end of year	<u>1,332</u>	<u>1,713</u>
Change in plan assets:		
Fair value at beginning of year	1,581	1,869
Actual return on plan assets	11	31
Employer contribution	277	276
Fair value at end of year	<u>1,869</u>	<u>2,176</u>
Funded status	<u>\$ 537</u>	<u>463</u>
Amounts recognized in the balance sheet consist of:		
Prepaid pension costs	\$ 628	631
Accrued pension liabilities	(91)	(168)
Net amount recognized	<u>\$ 537</u>	<u>463</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2009 and 2010**

Amounts recognized in accumulated other comprehensive income was net actuarial loss of \$443 thousand, \$465 thousand and \$668 thousand at December 31, 2008, 2009 and 2010, respectively.

The accumulated benefit obligation for the Defined Benefit Plan was \$461 thousand and \$603 thousand at December 31, 2009 and 2010, respectively. As of December 31, 2009 and 2010, no employee was eligible for retirement or was required to retire.

For the years ended December 31, 2008, 2009 and 2010, the net periodic pension cost consisted of the following:

	Year Ended December 31,		
	2008	2009	2010
		(in thousands)	
Service cost	\$ -	-	-
Interest cost	34	31	29
Expected return on plan assets	(35)	(40)	(43)
Net amortization	34	25	27
Net periodic pension cost	<u>\$ 33</u>	<u>16</u>	<u>13</u>

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 2011 is \$36 thousand.

At December 31, 2009 and 2010, the weighted-average assumptions used in computing the benefit obligation are as follows:

	December 31,	
	2009	2010
Discount rate	2.25%	2.00%
Rate of increase in compensation levels	4.00%	4.00%

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

For the years ended December 31, 2008, 2009 and 2010, the weighted average assumptions used in computing net periodic benefit cost are as follows:

	Year Ended December 31,				
	2008		2009		2010
	Himax Taiwan, Himax Media Solutions, HimaxDisplay & Himax Analogic	Himax Semiconductor	Himax Taiwan, Himax Media Solutions, HimaxDisplay & Himax Analogic	Himax Semiconductor	Whole
Discount rate	2.50%	2.50%	2.25%		2.00%
Rate of increase in compensation levels	4.00%	5.00%	4.00%		4.00%
Expected long-term rate of return on pension assets	2.50%	2.50%	2.25%		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 in 2020 is \$211 thousand and no benefits payments to be paid during the years from 2011 to 2019.

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,		
	2008	2009	2010
	(in thousands)		
Cost of revenues	\$ 435	264	240
Research and development	15,861	10,936	8,803
General and administrative	2,813	1,959	1,525
Sales and marketing	2,691	1,902	1,613
	\$ 21,800	15,061	12,181

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(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).

On December 30, 2005, the Company's compensation committee made grants of 1,297,564 RSUs and 20,000 RSUs to the Company's employees and independent directors, respectively. The vesting schedule for the RSUs granted to employees is as follows: 25% of the RSU grant vested immediately on the grant date, and a subsequent 25% will vest on each of September 30, 2006, 2007 and 2008, subject to certain forfeiture events. The vesting schedule for the RSUs granted to independent directors is as follows: 25% of the RSU grant vested immediately on the grant date, and a subsequent 25% that vested on each of June 30, 2006, 2007 and 2008, subject to certain forfeiture events.

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 were 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 were 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.

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 were 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2008, 2009 and 2010

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 were 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.

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 was \$8.62 per ADS, \$5.71 per ADS, \$3.95 per ADS, \$2.95 per ADS, \$3.25 per ADS and \$2.47 per ADS on December 30, 2005, September 29, 2006, September 26, 2007, September 29, 2008, September 28, 2009 and September 28, 2010, 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.

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, 2008	3,653,389	\$ 4.75
Granted	7,108,675	2.95
Vested	(5,914,336)	3.55
Forfeited	(311,433)	4.10
Balance at December 31, 2008	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

As of December 31, 2010, the total compensation cost related to the unvested RSUs not yet recognized was \$5,702 thousand. The weighted-average period over which it is expected to be recognized is 1.86 years.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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,		
	2008	2009 (in thousands)	2010
Cost of revenues	\$ 435	264	240
Research and development	14,906	10,078	8,153
General and administrative	2,813	1,938	1,505
Sales and marketing	2,671	1,853	1,587
	<u>\$ 20,825</u>	<u>14,133</u>	<u>11,485</u>

(b) Nonvested Shares Issued to Employees

- (i) 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 \$45 thousand and \$15 thousand in 2008 and 2009, respectively. Such compensation expense was recorded as research and development 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:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	703,000	\$ 0.319
Forfeited	(30,000)	0.319
Balance at December 31, 2008	673,000	0.319
Forfeited	(15,000)	0.319
Vested	(658,000)	0.319
Balance at December 31, 2009	<u>-</u>	-

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

- (ii) During September 2007 to December 2010, Himax Imaging Inc. ("Himax Imaging", 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. The Company recognized compensation expenses of \$261 thousand, \$340 thousand and \$355 thousand in 2008, 2009 and 2010, respectively. 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 shares on grant date was estimated based on the then most recent price of new shares issued, which was US\$0.33 per share.

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

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Balance at January 1, 2008	5,559,000	\$ 0.33
Granted	1,258,000	0.33
Vested	(1,996,229)	0.33
Forfeited	(250,000)	0.33
Balance at December 31, 2008	<u>4,570,771</u>	0.33
Granted	2,253,000	0.33
Vested	(903,882)	0.33
Forfeited	(271,000)	0.33
Balance at December 31, 2009	<u>5,648,889</u>	0.33
Granted	1,380,000	0.33
Vested	(868,390)	0.33
Forfeited	(813,722)	0.33
Balance at December 31, 2010	<u><u>5,346,777</u></u>	0.33

As of December 31, 2010, the total compensation cost related to this award not yet recognized was \$447 thousand. The weighted-average period over which it is expected to be recognized is 2.04 years.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

- (iii) As stated in Note 14 (a) above, in December 2007, Himax Media Solutions granted 3,416,714 nonvested 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' nonvested 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 nonvested 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, \$432 thousand and \$161 thousand in 2008, 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.

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

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Balance at January 1, 2008	3,398,714	\$ 0.464
Forfeited	<u>(376,189)</u>	0.464
Balance at December 31, 2008	3,022,525	0.464
Vested	(1,432,000)	0.464
Forfeited	<u>(469,525)</u>	0.464
Balance at December 31, 2009	1,121,000	0.464
Vested	(988,000)	0.464
Forfeited	<u>(133,000)</u>	0.464
Balance at December 31, 2010	<u>-</u>	-

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

(c) RSUs issued in connection with the acquisition of Himax Semiconductor

On February 1, 2007, the Company granted 418,440 units of RSUs in exchange for Himax Semiconductor's unvested stock option where each unit of RSU represents two ordinary share of the Company. 127,283 RSUs (represents 254,566 ordinary shares) grant vested immediately on the acquisition date and a subsequent 10%, 33% and 27% of the RSU grant that vested on each of September 30, 2007, 2008 and 2009, respectively, subject to certain forfeiture events. Vested portion of the RSUs grant was included in the purchase cost of Himax Semiconductor while the unvested portion is treated as post-combination compensation expense. The value of the unvested portion of the RSUs grant amounted to \$945 thousand which was determined based on the market price of the Company's ordinary shares on the acquisition date. Such post-combination compensation expense is amortized to compensation expense on a straight-line basis over the requisite service period. RSUs activity issued in connection with the acquisition of Himax Semiconductor during the period indicated is as follows:

	Number of Underlying Shares for RSUs	Weighted Average Grant Date Fair Value
Balance at January 1, 2008	52,566	\$ 7.064
Forfeited	(52,566)	7.064
Balance at December 31, 2008	<u>-</u>	<u>-</u>

(d) 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 is NT\$15 (US\$0.464) and NT\$10 (US\$0.311), 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 \$237 thousand, \$141 thousand and \$180 thousand in 2008, 2009 and 2010, 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

At December 31, 2010, 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.

	<u>2007</u>	<u>2009</u>
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%

Stock options activity during the periods indicated is as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>
Balance at January 1, 2008	6,490,500	\$ 0.464	4.375
Forfeited	(823,000)	0.464	
Balance at December 31, 2008	<u>5,667,500</u>	0.464	3.375
Granted	2,299,000	0.311	
Exercised	-	-	
Forfeited	(1,193,500)	0.446	
Balance at December 31, 2009	<u>6,773,000</u>	0.416	2.826
Granted	-	-	
Exercised	-	-	
Forfeited	(997,500)	0.420	
Balance at December 31, 2010	<u><u>5,775,500</u></u>	<u>0.415</u>	2.452
Exercisable at December 31, 2010	<u><u>2,944,125</u></u>	<u>0.464</u>	

The weighted average grant date calculated value of the options granted in 2007 and 2009 were NT\$5.4152 (US\$0.168) and NT\$1.3 (US\$0.040), respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Note 15. Equity

(a) Share capital

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

- (i) Increase of authorized share capital: to increase the authorized share capital of the Company from US\$50 thousand 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 1, 2007, the Company repurchased 6,569,108 ADSs and 1,095,342 ADSs in 2007 and 2008, respectively, from open market. In total, the Company has repurchased \$33.1 million or 7,664,450 ADSs in the open market at an average price of US\$4.32 per ADS.

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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(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, 2009 and 2010 amounting to \$39,868 thousand and \$45,638 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, 2008, 2009 and 2010

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 25%, 20% and 17% for December 31, 2008, 2009 and 2010, 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 31.8%, 27.2% and 24.47% for December 31, 2008, 2009 and 2010, 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:

<u>Date of investment</u>	<u>Tax exemption period</u>
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:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in thousands)		
Taiwan operations	\$ 64,141	45,160	38,235
US operations	(155)	39	(55)
China operations	(305)	(215)	157
Korea operations	55	(75)	177
Others	299	(1,184)	(3,220)
	<u>\$ 64,035</u>	<u>43,725</u>	<u>35,294</u>

The components of the income tax expense (benefit) attributable to income from continuing operations before taxes for the years ended December 31, 2008, 2009 and 2010 consist of the following:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(in thousands)		
Current:			
Taiwan operations	\$ 3,628	6,407	1,589
US operations	25	26	33
China operations	-	34	112
Korea operations	6	-	12
Others	-	-	1
Total current	<u>3,659</u>	<u>6,467</u>	<u>1,747</u>
Deferred:			
Taiwan operations	(12,232)	1,443	4,518
US operations	50	12	(30)
China operations	(166)	1	(15)
Korea operations	-	(8)	8
Others	-	-	-
Total deferred	<u>(12,348)</u>	<u>1,448</u>	<u>4,481</u>
Income tax expense (benefit)	<u>\$ (8,689)</u>	<u>7,915</u>	<u>6,228</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 (benefit) attributable to income from continuing operations for the years ended December 31, 2008, 2009 and 2010 are as follows:

	Year Ended December 31,		
	2008	2009	2010
		(in thousands)	
Deferred income tax benefit, exclusive of the effects of other components listed below	\$ (21,056)	(11,182)	(13,141)
Adjustments to deferred tax assets and liabilities for changes in enacted tax laws and rates	(14)	5,224	3,144
Increase in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	8,722	7,406	14,478
	<u>\$ (12,348)</u>	<u>1,448</u>	<u>4,481</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

The differences between expected income tax expense, computed based on the ROC statutory income tax rate of 25% in 2008 and 2009, and 17% in 2010, and the actual income tax expense (benefit) as reported in the accompanying consolidated statements of income for the years ended December 31, 2008, 2009 and 2010 are summarized as follows:

	Year Ended December 31,		
	2008	2009	2010
		(in thousands)	
Expected income tax expense	\$ 16,009	10,931	6,000
Tax-exempted income	(25,185)	(9,377)	(3,567)
Tax on undistributed retained earnings	10,281	5,816	1,643
Tax benefit resulting from setting aside legal reserve from prior year's income	(1,148)	(953)	(639)
Adjustment to deferred tax assets and liabilities for enacted change in tax laws and rates	(14)	5,224	3,144
Increase in investment tax credits	(17,191)	(13,809)	(3,687)
Increase in deferred tax asset valuation allowance	9,144	8,450	12,408
Non-deductible share-based compensation expenses	298	458	178
Provision for uncertain tax position in connection with share-based compensation expenses	367	416	133
Decrease in unrecognized tax benefits related to prior year uncertain tax positions, net of its impact to tax-exempted income	(1,780)	-	(2,295)
Tax effect resulting from foreign entities' monetary assets or liabilities that are denominated in functional currency	-	-	(4,885)
Transaction gain or loss resulted from remeasuring deferred foreign tax liabilities or assets	835	(1,016)	(3,392)
Tax effect of the difference resulting from remeasuring foreign entities' nonmonetary assets	(1,966)	691	(1,043)
Foreign tax rate differential	537	1,184	1,320
Variance from audits of prior years' income tax filings	441	(538)	1,205
Others	683	438	(295)
Actual income tax expense (benefit)	<u>\$ (8,689)</u>	<u>7,915</u>	<u>6,228</u>

The basic and diluted earnings per ordinary share effect resulting from the income tax exemption for the years ended December 31, 2008, 2009 and 2010, is a \$0.07, \$0.03 and \$0.01, increase to earnings per ordinary share, respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

The total income tax expense (benefit) for the years ended December 31, 2008, 2009 and 2010 was allocated as follows:

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Income from continuing operations	\$ (8,689)	7,915	6,228
Other comprehensive loss	(20)	(18)	(54)
Tax benefit allocated to reduce goodwill	(32)	-	-
Total income tax expense (benefit)	<u>\$ (8,741)</u>	<u>7,897</u>	<u>6,174</u>

As of December 31, 2009 and 2010, the components of deferred income tax assets (liabilities) were as follows:

	December 31,	
	2009	2010
	(in thousands)	
Deferred tax assets:		
Inventory	\$ 4,133	4,482
Allowance for doubtful accounts	4,678	2,556
Equity method investments	-	38
Capitalized expense for tax purposes	36	28
Accrued compensated absences	59	67
Allowance for sales return, discounts and warranty	222	223
Unused investment tax credits	47,849	49,084
Unused loss carry-forward	14,006	18,466
Unrealized foreign exchange loss	-	5,178
Accrued pension cost	114	168
Other	337	325
Total gross deferred tax assets	71,434	80,615
Less: valuation allowance	(28,428)	(42,906)
Net deferred tax assets	<u>43,006</u>	<u>37,709</u>
Deferred tax liabilities:		
Unrealized foreign exchange gain	-	(293)
Prepaid pension cost	(332)	(360)
Acquired intangible assets	(2,269)	(1,541)
Property, plant and equipment	(62)	(31)
Deferred shared based compensation	(518)	(89)
Other	(3)	-
Total gross deferred tax liabilities	(3,184)	(2,314)
Net deferred tax assets	<u>\$ 39,822</u>	<u>35,395</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

As of December 31, 2010, the Company has not provided for income taxes on the undistributed earnings of approximately \$454,457 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, 2008, 2009 and 2010 was \$12,300 thousand, \$21,022 thousand and \$28,428 thousand, respectively. The net change in the valuation allowance for the years ended December 31, 2008, 2009 and 2010, was an increase of \$8,722 thousand, \$7,406 thousand and \$14,478 thousand, respectively. In 2008, the Company allocated \$32 thousand of tax benefit to reduce goodwill as a result of the release of valuation allowance that was initially established at the acquisition of Himax Semiconductor. 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 carryforwards 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, 2010. 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 carryforward period are reduced.

Each entity within the Company files separate standalone income tax return. Except for Himax Taiwan, Himax Anyang (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 \$28,428 thousand and \$31,569 thousand as of December 31, 2009 and 2010, respectively, were provided to reduce their deferred tax assets (consisting primarily of operating loss carryforwards and unused investment tax credits) to zero because management believes it is unlikely that these tax benefits will be realized. The total tax loss carryforwards for these subsidiaries at December 31, 2010 was \$108,445 thousand, which will expire if unused by 2020. The total unused investment tax credits for these subsidiaries at December 31, 2010 were \$12,859 thousand, which will expire if unused by 2013.

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2009 and 2010**

As ROC Income Tax Acts has been amended in January 2009, the tax loss carryforwards 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 carryforwards 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.

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 is not be carried forward.

As of December 31, 2010, all of the Company's unused investment tax credits of NT\$1,601,363 thousand (US\$54,973 thousand) reported for tax return purposes will expire if unused by 2013.

The Company adopted the provisions of ASC 740-10 (Interpretation 48) on January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	For the year ended December 31,		
	2008	2009	2010
		(in thousands)	
Balance at beginning of year	\$ 3,968	5,718	8,450
Increase related to prior year tax positions	-	-	-
Decrease related to prior year tax positions	(1,780)	-	(2,295)
Increase related to current year tax positions	3,555	2,587	133
Effect of exchange rate change	(25)	145	604
Balance at end of year	<u>\$ 5,718</u>	<u>8,450</u>	<u>6,892</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Included in the balance of total unrecognized tax benefits at December 31, 2009 and 2010, are potential benefits of \$7,821 thousand and \$6,286 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, 2008, 2009 and 2010. The Company's major taxing jurisdiction is Taiwan. Except for Himax Semiconductor and Himax Analogic, whose income tax returns have been examined by the ROC tax authorities through 2008, all other Taiwan subsidiaries' income tax returns have been examined and assessed by the ROC tax authorities through 2007. The tax years 2008, 2009 and 2010 remain 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, 2010.

Note 17. Fair Value Measurement

(a) Fair Value of Financial Instruments

The fair values of cash, cash equivalents, accounts receivable, 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

(b) Fair Value Hierarchy

The Company adopted ASC 820 (SFAS No. 157) on January 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. On January 1, 2009, the Company adopted the provisions of ASC 820 (SFAS No. 157) for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. ASC 820 (SFAS No. 157) establishes a fair value hierarchy 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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, 2009 and 2010:

	Fair Value Measurements at December 31, 2009 Using		
	Level 1	Level 2	Level 3
	(in thousands)		
Cash and cash equivalents:			
Time deposits with original maturities less than three months	\$ 87,600	-	-
Marketable securities available-for-sale:			
Time deposit with original maturities more than three months	-	2,218	-
Open-ended bond fund	8,512	-	-
Restricted marketable securities:			
Time deposits with original maturities of more than three months	-	1,094	-
Total	\$ 96,112	3,312	-

	Fair Value Measurements at December 31, 2010 Using		
	Level 1	Level 2	Level 3
	(in thousands)		
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:			
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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 2008, 2009 and 2010.

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, 2010.

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:

	Corporate straight bonds	Derivatives- Conversion option	Total
		(in thousands)	
Balance at December 31, 2009	\$ -	-	-
Purchases, issuances, and settlements	4,365	684	5,049
Total unrealized gains included in earnings	-	320	320
Total unrealized gains included in other comprehensive income, net	831	-	831
Balance at December 31, 2010	\$ 5,196	1,004	6,200
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	\$ -	320	320

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% which is based on risk-free rates plus issuer's risk premium for the expected terms. The risk-free rate of 1.0485% for the expected terms of 4.6 years is derived from the yield rate of 2 years and 5 years ROC central government bond at the reporting date. The investee's risk premium is 0.55% that is based on the risk premium of the issuer's unsecured bank loan; (b) an expected volatility of 40.71% is used in the valuation of conversion option, which is based on the average historical volatility of the issuer's publicly traded shares.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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 a substantial 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 62.5%, 64.3% and 52.2%, respectively, of the Company's revenues in 2008, 2009 and 2010, and represented more than 10% of the Company's total accounts receivable balance at December 31, 2009 and 2010. CMO/CMI and its affiliates accounted for approximately 67.6% and 54.3% of the Company's total accounts receivable balance at December 31, 2009 and 2010, respectively. In addition, the Company had accounts receivable of \$25.5 million and \$16.7 million outstanding from SVA-NEC as of December 31, 2009 and 2010, respectively. Since the 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 in cash from SVA-NEC in October 2010. The allowance for doubtful accounts for SVA-NEC's accounts receivable is \$25.5 million and \$16.7 million as of December 31, 2009 and 2010, respectively. 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.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

<u>Name of related parties</u>	<u>Relationship</u>
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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****December 31, 2008, 2009 and 2010**

Name of related parties	Relationship
NEXGEN Mediatech Inc. (NEXGEN) Chi Lin Technology Co., Ltd. (Chi Lin Tech)	The Company's Chairman represented on NEXGEN's Board of Directors The Company's Chairman represented on Chi Lin Tech's Board of Directors
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 (CMEI)	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)
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)
ShenZhen Nexgen Trading Co., Ltd. (ShenZhen Nexgen)	The subsidiary of NEXGEN
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, 2008, 2009 and 2010

<u>Name of related parties</u>	<u>Relationship</u>
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
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
(1) 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.
(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, 2008, 2009 and 2010

(b) Significant transactions with related parties

(i) Revenues and accounts receivable

Revenues from related parties are summarized as follows:

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
CMO- NingBo	\$ 292,231	230,299	167,255
CMI	-	-	56,770
CMO- NanHai	69,865	86,612	51,821
Chi Hsin- NingBo	4,382	23,789	19,730
CMO	143,132	101,569	15,602
ShenZhen Nexgen	-	-	13,037
CME- NingBo	1,804	-	8,592
Shinyoptics	-	23	992
Amlink	-	1,933	912
TPO Japan	-	-	853
TPO Hong Kong	-	-	827
Crystal	-	45	723
Chi Hsin- Dongguan	2,397	2,792	604
Chi Lin Tech	-	60	401
TPO Shanghai	-	-	347
CMO-Japan	3	10	87
CMEL	288	45	70
Ampower	2	-	1
Chi Hsin	6,359	129	-
	\$ 520,463	447,306	338,624

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

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Display driver for large-size applications	\$ 498,771	417,099	297,146
Display driver for consumer electronics applications	16,486	25,542	27,189
Display driver for mobile handsets	4,029	1,487	10,170
Others	1,175	1,117	1,090
	\$ 520,461	445,245	335,595

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

The related accounts receivable resulting from the above sales as of December 31, 2009 and 2010, were as follows:

	December 31,	
	2009	2010
	(in thousands)	
CMO- NingBo	\$ 73,029	39,793
CMI	-	27,275
CMO- NanHai	27,088	16,305
Chi Hsin- NingBo	6,361	6,474
CME- NingBo	-	4,823
TPO Hong Kong	-	634
TPO Japan	-	335
Crystal	45	220
TPO Shanghai	-	177
Chi Lin Tech	63	28
CMEL	8	28
CMO-Japan	-	10
CMO	30,360	-
Amlink	1,010	-
Chi Hsin- Dongguan	350	-
Shinyoptics	16	-
	<u>138,330</u>	<u>96,102</u>
Allowance for sales returns and discounts	(158)	(138)
	<u>\$ 138,172</u>	<u>95,964</u>

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 2009 and 2010, the Company purchased equipment amounting to \$67 thousand and \$71 thousand from Fulintec, respectively. The purchase transaction in 2009 and 2010 had been full paid as of December 31, 2009 and 2010. Also in 2009, the Company sold equipment amounting to \$9 thousand to Shinyoptics. As of December 31, 2009, the related receivables from the aforementioned transaction were \$9 thousand.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 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, 2008, 2009 and 2010, the related rent and utility expenses resulting from the aforementioned transactions amounted to \$634 thousand, \$700 thousand and \$1,119 thousand, respectively, and were recorded as cost of revenue and operating expenses in the accompanying consolidated statements of income. As of December 31, 2009 and 2010, the related payables resulting from the aforementioned transactions amounted to \$152 thousand and \$362 thousand, respectively, and were recorded as other accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2010, future minimum lease payments under noncancelable operating leases with related parties are as follows:

<u>Duration</u>	<u>Amount</u>
	(in thousands)
January 1, 2011~December 31, 2011	\$ 198
January 1, 2012~December 31, 2012	198
January 1, 2013~December 31, 2013	197
January 1, 2014~December 31, 2014	187
January 1, 2015~December 31, 2015	187
After January 1, 2016	1,548
	<u>\$ 2,515</u>

(iv) Others

In 2008, 2009 and 2010, the Company purchased consumable and miscellaneous items amounting to \$146 thousand, \$345 thousand and \$449 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, 2009 and 2010, the related payables resulting from the aforementioned transactions were \$7 thousand and nil, respectively.

In 2008, 2009 and 2010, Chi Lin Tech provided IC bonding service on prototype panels for the Company's research activities for a fee of \$73 thousand, \$43 thousand and \$12 thousand, respectively, which was charged to research and development expense. As of December 31, 2009 and 2010, the related process fee payables resulting from the aforementioned transactions were \$6 thousand and nil, respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Note 20. Commitments and Contingencies

- (a) As of December 31, 2009 and 2010, the Company entered into a license agreement which is secured by standby letter of credit by bank both amounting to \$250 thousand. As of December 31, 2010, amount of outstanding letters of credit for the purchase of machinery and equipment was \$1,839 thousand.
- (b) As of December 31, 2009, and 2010 the Company had entered into several contracts for the acquisition of equipment and computer software. Total contract prices amounted to \$5,010 thousand and \$8,825 thousand, respectively. As of December 31, 2009 and 2010, the remaining commitments were \$3,761 thousand and \$7,715 thousand, respectively.
- (c) The Company leases its office and buildings pursuant to operating lease arrangements with unrelated third parties. The lease arrangement will expire gradually from 2011 to 2013. As of December 31, 2009 and 2010, deposits paid amounted to \$662 thousand and \$535 thousand, respectively, and were recorded as refundable deposit in the accompanying consolidated balance sheets.

As of December 31, 2010, future minimum lease payments under noncancelable operating leases are as follows:

<u>Duration</u>	<u>Amount</u> (in thousands)
January 1, 2011~December 31, 2011	\$ 933
January 1, 2012~December 31, 2012	298
January 1, 2013~December 31, 2013	32
	<u>\$ 1,263</u>

Rental expense for operating leases with unrelated third parties amounted to \$1,223 thousand, \$1,149 thousand and \$1,229 thousand in 2008, 2009 and 2010, respectively.

- (d) The Company entered into several sales agent agreements, based on these agreements, the Company shall pay 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.
- (e) In June 2007, the Company entered into a license agreement for the use of HDMI 1.3 receiver core relevant technology for 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 2008, 2009 and 2010, no royalty was paid.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

- (f) The company has entered into two agreements to provide donations for laboratories with two top local universities in Taiwan. The total donation amounts based on the modified agreements amounted to NT\$55.4 million (\$1.7 million). As of December 31, 2010, the remaining commitments were NT\$12.0 million (\$0.4 million).
- (g) According to the Agreement and Plan of Merger, signed with Spatial Photonics, Inc. (“Spatial Photonics”) on October 25, 2010, the Company was granted a purchase option to acquire all of the outstanding shares of ordinary shares of Spatial Photonics on and before, October 31, 2011 with agreed merger consideration which is up to 20% of the Company’s subsidiary, Himax Display Inc.’s ordinary shares determined in accordance with specific milestones. As of December 31, 2010, the Company had paid \$6,500 thousand to acquire Spatial Photonics’ Series D-1 Preferred Stock standing for 15.41% equity ownership of Spatial Photonics.
- (h) 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.
- (i) 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 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.
- (j) 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 \$63,129 thousand and \$106,419 thousand as of December 31, 2009 and 2010, respectively.

Note 21. Product and Geographic Information

The Company is engaged in the design, development and marketing of semiconductors for flat panel displays. Based on the Company’s internal organization structure and its internal reporting, management has determined that the Company does not have any operating segments as that term is defined in ASC 280 (SFAS No. 131), “*Segments Reporting*”.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Display drivers for large-size applications	\$ 651,504	493,513	366,492
Display drivers for mobile handsets applications	57,274	69,081	119,623
Display drivers for consumer electronics applications	81,866	83,527	103,942
Others	42,155	46,260	52,635
	\$ 832,799	692,381	642,692

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,		
	2008	2009	2010
	(in thousands)		
Taiwan	\$ 646,011	548,384	492,687
China	116,947	86,451	112,845
Other Asia Pacific (Korea and Japan)	69,570	57,414	37,121
Europe (Europe and America)	271	132	39
	\$ 832,799	692,381	642,692

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

	December 31,	
	2009	2010
	(in thousands)	
Taiwan	\$ 50,254	46,336
China	1,006	983
U.S.	296	223
Korea	30	19
	\$ 51,586	47,561

For the years ended December 31, 2008, 2009 and 2010, revenues from significant customer, CMO/CMI and its affiliates, a related party, which representing 10% or more of total revenue are \$520,461 thousand, \$445,245 thousand, and \$335,595 thousand, respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in thousands)	
CMI and its affiliates, a related party	\$ -	95,854
SVA-NEC	25,524	16,727
CMO and its affiliates, a related party	137,196	-
	<u>\$ 162,720</u>	<u>112,581</u>

As of December 31, 2009 and 2010, allowance for doubtful accounts, sales returns and discounts for those accounts receivable was \$25,673 thousand and \$16,865 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

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	(in thousands)	
Cash	\$ 77	375
Other current assets	1,898	356
Investment in non-marketable securities	1,600	1,600
Investments in subsidiaries	572,574	612,703
Total assets	<u>\$ 576,149</u>	<u>615,034</u>
Current liabilities	\$ 1,296	2,156
Short-term debt	-	44,000
Debt borrowing from a subsidiary	155,400	163,000
Total equity	419,453	405,878
Total liabilities and equity	<u>\$ 576,149</u>	<u>615,034</u>

Himax Technologies, Inc. had no guarantees as of December 31, 2009 and 2010.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

Condensed Statements of Income

	Year ended December 31,		
	2008	2009	2010
	(in thousands)		
Revenues	\$ -	-	-
Costs and expenses	(1,162)	(1,080)	(1,210)
Operating loss	(1,162)	(1,080)	(1,210)
Equity in earnings from subsidiaries	76,082	40,834	36,427
Other non-operating income (loss)	1,461	(104)	(2,010)
Earnings before income taxes	76,381	39,650	33,207
Income taxes	-	-	1
Net Income	<u>\$ 76,381</u>	<u>39,650</u>	<u>33,206</u>

Condensed Statements of Cash Flows

	Year ended December 31,		
	2008	2009	2010
	(in thousands)		
Cash flows from operating activities:			
Net income	\$ 76,381	39,650	33,206
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share-based compensation expense	22	24	-
Equity in earnings from subsidiaries	(76,082)	(40,834)	(36,427)
Changes in operating assets and liabilities:			
Other current assets	330	(826)	1,543
Other accrued expenses and other current liabilities	78	654	(2,542)
Net cash provided by (used in) operating activities	<u>729</u>	<u>(1,332)</u>	<u>(4,220)</u>
Net cash used in investing activities	<u>(8,481)</u>	<u>(11,400)</u>	<u>-</u>

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2009 and 2010

	Year ended December 31,		
	2008	2009	2010
	(in thousands)		
Cash flows from financing activities:			
Distribution of cash dividends	(66,817)	(55,496)	(44,097)
Proceeds from borrowing of short-term debt	-	80,000	204,000
Repayment of short-term debt	-	(80,000)	(160,000)
Proceeds from issue of RSUs from a subsidiary	7,540	6,598	4,370
Proceeds from debt from a subsidiary	60,000	95,400	11,000
Acquisitions of ordinary shares for retirement	(8,656)	(36,596)	(10,755)
Net cash provided by (used in) financing activities	<u>(7,933)</u>	<u>9,906</u>	<u>4,518</u>
Net increase (decrease) in cash	(15,685)	(2,826)	298
Cash at beginning of year	18,588	2,903	77
Cash at end of year	<u>\$ 2,903</u>	<u>77</u>	<u>375</u>
Supplemental disclosures of cash flow information:			
Interest paid during the year	<u>\$ -</u>	<u>3</u>	<u>156</u>
Income taxes paid during the year	<u>\$ -</u>	<u>-</u>	<u>1</u>

Note 23. Subsequent Events

On March 11, 2011, Japan was struck with a severe earthquake followed by a tsunami, with continuing aftershocks. These geological events have caused significant damage in the region, including severe damage to nuclear power plants, and have impacted Japan's power and other infrastructure. The Company does not have a physical presence in Japan and therefore did not experience any property damages or losses. The Company's sales to customers located in Japan accounted for approximately 1.9% of consolidated total sales for the year ended December 31, 2010. A number of suppliers of the Company's raw materials, components and equipment are located in Japan. Some of these suppliers were affected by the March 2011 earthquake and tsunami and some continue to be affected by unreliable power, shipping constraints and issues with their suppliers. Management continues to monitor the situation and the Company's potential exposure.

PORTIONS OF THIS EXHIBIT MARKED WITH AN ASTERISK (*) INDICATE OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

AGREEMENT AND PLAN OF MERGER

BY AND AMONG
HIMAX DISPLAY, INC.
as the Purchaser,

SPATIAL PHOTONICS, INC.
as the Company,

AND

WEN HSIEH,
as the Stockholder Representative

DATED NOVEMBER 8, 2010

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into this 8th day of November, 2010 (the "Agreement Date"), by and among Himax Display, Inc., a corporation organized under the laws of the Republic of China (the "Purchaser") and Spatial Photonics, a Delaware corporation (the "Company"), and Wen Hsieh, solely in its capacity as the representative of the Stockholders (the "Stockholder Representative"). Except as otherwise set forth herein, capitalized terms used herein have the meanings set forth in Exhibit A. As used in this Agreement, the term "Merger Sub" has the meaning set forth in Section 7.13 and such entity, when formed, shall become a party to this Agreement as provided in Section 7.13.

WHEREAS, Purchaser and the Company entered into a Series D- 1 Preferred Stock Purchase Agreement dated November 8, 2010 (the "Series D-1 Purchase Agreement"), pursuant to which Purchaser purchased shares of Series D-1 Preferred Stock of the Company on the terms and conditions set forth therein (the "Series D-1 Investment");

WHEREAS, it is a condition precedent to the Series D-1 Investment that the parties enter into this Agreement;

WHEREAS, subject to the terms and conditions specified herein, as partial consideration for the Purchaser's willingness to make the Series D-1 Investment under the Series D-1 Purchase Agreement, the Company wishes to grant the Purchaser an option to acquire all of the outstanding shares of the Company pursuant to a reverse triangular merger of Merger Sub with and into the Company (the "Merger") in exchange for the issuance of the Merger Consideration (as defined below);

WHEREAS, the Merger Consideration to be paid by the Purchaser upon exercise of the Purchase Option (as defined below) has been determined through arm's-length negotiations by the parties;

WHEREAS, concurrently with the execution of this Agreement, the Company and the Purchaser have entered into an Intellectual Property Agreement in the form attached hereto as Exhibit H;

WHEREAS, the respective boards of directors of the Purchaser and the Company have deemed it advisable and in the best interests of their respective corporations and stockholders that the Purchaser and the Company enter into this Agreement and to consummate the transactions contemplated hereby should the Purchaser elect to exercise the Purchase Option as provided herein; and

WHEREAS, the Purchaser will cause the Merger Sub to be formed promptly following the Agreement Date and upon its execution of this Agreement, the Merger Sub shall become a party to this Agreement;

NOW, THEREFORE, intending to be legally bound and in consideration of the mutual provisions set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

ARTICLE 1 THE OPTION

1.1 Purchase Option by the Purchaser. The Company hereby grants to Purchaser the option (the "Purchase Option") to, subject to the terms and conditions set forth herein, acquire all of the outstanding shares of capital stock of the Company pursuant to the consummation of the Merger contemplated by, and upon the terms and conditions set forth in, this Agreement.

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

1.2 Procedure. The Purchaser may, at its sole and absolute discretion, elect to exercise the Purchase Option on or before October 31, 2011 (the "Purchase Option Expiration Date"), by delivering written notice of such exercise to the Company. The date on which the Purchaser delivers the exercise notice is referred to hereinafter as the "Exercise Date." Upon the delivery of the exercise notice, the parties hereto shall consummate the Merger in accordance with Article 2 below. For the avoidance of doubt, notwithstanding anything to the contrary set forth herein, (i) the Purchase Option shall expire as of 11:59 pm, Pacific Time, on the Purchase Option Expiration Date, and (ii) to the extent the Purchaser elects not to exercise the Purchase Option on or prior to the Purchase Option Expiration Date, the Purchaser shall continue to hold shares of its Series D-1 Preferred Stock (or Series D Preferred Stock or Common Stock issued upon conversion thereof) after the Purchase Option Expiration Date.

1.3 Option by the Company. Notwithstanding anything to the contrary, in the event this Agreement is terminated pursuant to Section 9.1(c) or Section 9.1(d), the Company shall have the right to cause the Purchaser to issue to the Company the Merger Consideration that would otherwise have been issuable to the Stockholders pursuant to Article 2 had the Purchase Option been exercised by the Purchaser (the "Company Option"), by delivering a written notice to the Purchaser no later than seven Business Days after the Purchase Option Expiration Date (the "Company Option Expiration Date"); provided, however, that in no event will the Company be entitled to exercise the Company Option if, prior on the Purchase Option Expiration Date:

- (a) there exists a reliability failure mode as of Purchase Option Expiration Date other than as disclosed in the * attached as Exhibit B-1 hereto, and the Company is unable to demonstrate on or prior to the Purchase Option Expiration Date that such failure mode achieves at least *, in each case in accordance with Exhibit B;
- (b) there exists Indebtedness of the Company as of the Agreement Date that was not known to the Purchaser as of the Agreement Date, and the Company is not provided with funding by one or more of its Stockholders (other than the Purchaser) to discharge such Indebtedness prior to the Purchase Option Expiration Date;
- (c) there has been a breach by the Company of its representations and warranties set forth in Section 4.10(c) hereof and such breach shall not have been cured prior to the later of (i) the Purchase Option Expiration Date, and (ii) 10 Business Days after the earlier of (x) receipt by the Company of written notice of such breach from the Purchaser or (y) the date on which the Company becomes aware of such breach; or
- (d) there has been a material breach by the Company of any of its covenants set forth in Section 7.2(b) hereof and such breach shall not have been cured prior to the later of (i) the Purchase Option Expiration Date, and (ii) 10 Business Days after the earlier of (x) receipt by the Company of written notice of such breach from the Purchaser or (y) the date on which the Company becomes aware of such breach.

For the avoidance of doubt, notwithstanding anything to the contrary set forth herein, the Company Option shall expire as of 11:59 pm, Pacific Time, on the Company Option Expiration Date.

ARTICLE 2
THE MERGER

2.1 The Merger. In accordance with the provisions of this Agreement, at the Effective Time, the Merger Sub will be merged (the "Merger") with and into the Company in accordance with the provisions of the Delaware General Corporation Law ("DGCL"). Following the Merger, the Company

will continue as the surviving corporation and a wholly-owned subsidiary of the Purchaser (the “Surviving Corporation”), and the separate corporate existence of the Merger Sub will cease.

2.2 Closing of the Merger; Effective Time and Actions at the Merger Closing. Subject to the satisfaction or waiver of the conditions set forth in Sections 6.1 and 6.2 and the exercise of the Purchase Option by the Purchaser, the consummation of the Merger and the other transactions contemplated by this Agreement (the “Merger Closing”) will take place at the offices of Baker & McKenzie LLP, 660 Hansen Way, Palo Alto, California no later than the third Business Day after the satisfaction or waiver of the conditions set forth in Sections 6.1 and 6.2, or at such other time, date and location as the Purchaser and the Company may agree in writing (the “Merger Closing Date”). On the Merger Closing Date:

(a) Effective Time. The Merger will be consummated by the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with Section 251(c) of the DGCL. The time that the Merger becomes effective in accordance with Sections 103 and 251 of the DGCL is referred to in this Agreement as the “Effective Time.”

(b) General Deliveries. The parties will deliver or cause to be delivered the various certificates, instruments and documents referred to in Sections 6.1 and 6.2. In addition, Purchaser shall deliver the Purchaser Fully-Diluted Capital Stock Certificate to the Company no later than three Business Days prior to the Merger Closing Date for the purpose of enabling the Company to prepare the Final Merger Consideration Allocation Schedule pursuant to Section 3.

(c) Exchange Agent Agreement.

(i) The Purchaser and a third party exchange agent (the “Exchange Agent”) will execute and deliver an Exchange Agent Agreement in a form reasonably satisfactory to the Purchaser and the Company (the “Exchange Agent Agreement”).

(ii) Promptly after the Effective Time and in any event within three Business Days thereof, the Purchaser will update its shareholder registry to reflect the issuance of the shares of Purchaser Common Stock to the Stockholders as Merger Consideration pursuant to Article 3. Within three months after the Effective Time, the Purchaser will deposit with the Exchange Agent the share certificates representing the aggregate number of shares of Purchaser Common Stock issuable to the Stockholders as the Merger Consideration pursuant to Article 3 at the Merger Closing. Such share certificates will be held by the Exchange Agent under the terms of the Exchange Agent Agreement (the “Exchange Fund”) for disbursement after the Closing as set forth in Section 2.2(d) and Article 3.

(d) Disbursement to Stockholders. Promptly after the Effective Time, the Purchaser will cause the Exchange Agent to deliver to the Stockholders the applicable portion of the Merger Consideration, if any, in accordance with Article 3 and the other applicable provisions of this Agreement and the Exchange Agent Agreement.

(e) Fractional Shares. No fraction of a share of Purchaser Common Stock will be issued at the Effective Time, but in lieu thereof, each holder of Outstanding Company Shares who would otherwise be entitled to a fraction of a share of Purchaser Common Stock pursuant to Article 3 hereof (after aggregating all fractional shares of Purchaser Common Stock to be received by such holder) will be entitled to receive an amount of cash (rounded to the nearest cent) equal to the product of such fraction multiplied by the Purchaser Stock Price.

2.3 Effects of the Merger. The Merger will have the effects set forth in the DGCL. Without limiting the generality of the foregoing, as of the Effective Time, all properties, rights, privileges, powers and franchises of the Company and the Merger Sub will vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and the Merger Sub will become debts, liabilities and duties of the Surviving Corporation.

2.4 Certificate of Incorporation and Bylaws. At the Effective Time, the certificate of incorporation of the Company will be amended and restated in its entirety to be identical to the certificate of incorporation of the Merger Sub, as in effect immediately prior to the Effective Time, except that the name of the Surviving Corporation will be "Spatial Photonics, Inc." and such other changes as may be required pursuant to Section 8.1 hereof. The bylaws of the Merger Sub, as in effect immediately prior to the Effective Time, will be the bylaws of the Surviving Corporation, subject to any changes as may be required pursuant to Section 8.1 hereof.

2.5 Directors. The directors of the Merger Sub at the Effective Time will be the initial directors of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the certificate of incorporation and the bylaws of the Surviving Corporation or as otherwise provided by Law.

2.6 Officers. The officers of the Merger Sub at the Effective Time will be the initial officers of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the certificate of incorporation and bylaws of the Surviving Corporation or as otherwise provided by Law.

2.7 Closing of the Company Option Exercise. In the event that Purchaser does not exercise the Purchase Option by the Purchase Option Expiration Date, and subject to the satisfaction or waiver of the conditions set forth in Section 6.1 and the exercise of the Company Option by the Company, the consummation of the issuance of the Merger Consideration to the Company pursuant to Section 1.3 (the "Company Option Closing") will take place at the offices of Baker & McKenzie LLP, 660 Hansen Way, Palo Alto, California no later than the third Business Day after the satisfaction or waiver of the conditions set forth in Section 6.1, or at such other time, date and location as the Purchaser and the Company may agree in writing (the "Company Option Exercise Closing Date"). Purchaser shall deliver the Purchaser Fully-Diluted Capital Stock Certificate to the Company, together with a calculation of the number of shares of Purchaser Common Stock to be issued to the Company pursuant to Section 1.3, within three Business Days following the exercise by the Company of the Company Option pursuant to Section 1.3, which share calculation shall be reasonably satisfactory to the Company. Promptly after the Company Option Closing, and in any event within three Business Days thereof, Purchaser will update its shareholder registry to reflect the issuance of the shares of Merger Consideration to the Company pursuant to Section 1.3. Within three months after the Effective Time, the Purchaser will deliver to the Company the share certificate representing the aggregate number of shares of Purchaser Common Stock issuable to the Company as the Merger Consideration as contemplated pursuant to Section 1.3.

ARTICLE 3 EFFECT OF MERGER; EXCHANGE PROCEDURES

3.1 Merger Consideration.

- (a) For the purposes hereof, the following definitions will apply:
 - (i) "Class M Pro-Rata" means the percentage obtained by dividing one share of Class M Stock by the Class M Shares.
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(ii) "Class M Allocation" means an aggregate number of shares of Purchaser Common Stock equal to 17.416% (or such lesser percentage as may be determined by the Company prior to the Effective Time with the prior written consent of Purchaser which shall not be unreasonably withheld) of the Merger Consideration, if any, which shall be allocated or otherwise payable to the holders of the Outstanding Class M Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(iii) "Company Certificate" means the Certificate of Incorporation of the Company, as amended and/or restated.

(iv) "Common Pro-Rata" means the percentage obtained by dividing one share of Common Stock by the Company Common Shares.

(v) "Common Stock Allocation" means the aggregate percentage of the Merger Consideration, if any, allocated or otherwise payable to the holders of the Company Common Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(vi) "Company Common Shares" means the aggregate number of shares of Common Stock issued and outstanding as of the Effective Time.

(vii) "Merger Consideration" means that number of shares of Purchaser Common Stock equal to 97.5% of such number of shares of Purchaser Common Stock as will equal that percentage of the Purchaser Fully Diluted Capital Stock following the issuance of such shares that is determined in accordance with Exhibit B to this Agreement, it being understood that the remaining 2.5% of such number of shares of Purchaser Common Stock so determined shall be retained by the Purchaser for issuance to its directors, officers, employees and consultants.

(viii) "Options" means all outstanding options, warrants or other rights to acquire shares of Company Capital Stock, whether or not exercisable and whether or not vested, and whether or not granted under the Plans.

(ix) "Outstanding Class M Shares" means the aggregate number of shares of Class M Stock issued and outstanding as of the Effective Time.

(x) "Outstanding Company Shares" means the sum of (a) the number of Company Common Shares, plus (b) the number of Outstanding Class M shares; plus (c) the number of Outstanding Company Series A Shares, plus (d) the number of Outstanding Company Series B Shares, plus (e) the number of Outstanding Company Series C Shares, plus (f) the number of Outstanding Company Series D Shares, plus (g) the number of shares of Series D-1 Preferred Stock, in each case issued and outstanding as of the Effective Time.

(xi) "Outstanding Company Series A Shares" means the aggregate number of shares of Series A Preferred Stock, issued and outstanding as of the Effective Time.

(xii) "Outstanding Company Series B Shares" means the aggregate number of shares of Series B Preferred Stock, issued and outstanding as of the Effective Time.

(xiii) "Outstanding Company Series C Shares" means the aggregate number of shares of Series C Preferred Stock, issued and outstanding as of the Effective Time.

(xiv) “Outstanding Company Series D Shares” means the aggregate number of shares of Series D Preferred Stock, issued and outstanding as of the Effective Time.

(xv) “Preferred Stock” means the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and the Series D-1 Preferred Stock of the Company.

(xvi) “Purchaser Fully Diluted Capital Stock” means, as of immediately prior to the Effective Time or as of immediately prior to the Company Option Closing, as applicable, the sum of (A) all outstanding shares of Purchaser Common Stock, plus (B) all outstanding shares of preferred stock of the Purchaser (calculated on an as-converted to common stock basis); plus (C) the number of shares of Purchaser Common Stock issuable upon exercise of all outstanding warrants, options or other rights to acquire Purchaser Common Stock.

(xvii) “Purchaser Fully Diluted Capital Stock Certificate” means a certificate duly executed by the Secretary of Purchaser, in a form mutually acceptable to each of Purchaser and the Company, setting forth the number of Purchaser Fully Diluted Capital Stock as of immediately prior to the Effective Time, or the Company Option Closing, as applicable.

(xviii) “Purchaser Stock Price” means the fair market value of the Purchaser Common Stock as of the Closing as determined in good faith by the Board of Directors of the Purchaser.

(xix) “Series A Allocation” means the aggregate portion of the Merger Consideration, if any, allocated or otherwise payable to the holders of the Outstanding Company Series A Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(xx) “Series A Pro-Rata” means the percentage obtained by dividing one share of Series A Preferred Stock by the Outstanding Company Series A Shares.

(xxi) “Series B Allocation” means the aggregate portion of the Merger Consideration, if any, allocated or otherwise payable to the holders of the Outstanding Company Series B Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(xxii) “Series B Pro-Rata” means the percentage obtained by dividing one share of Series B Preferred Stock by the Outstanding Company Series B Shares.

(xxiii) “Series C Allocation” means the aggregate portion of the Merger Consideration, if any, allocated or otherwise payable to the holders of the Outstanding Company Series C Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(xxiv) “Series C Pro-Rata” means the percentage obtained by dividing one share of Series C Preferred Stock by the Outstanding Company Series C Shares.

(xxv) “Series D Allocation” means the aggregate percentage of the Merger Consideration allocated or otherwise payable to the holders of the Outstanding Company Series D Shares in connection with the Merger pursuant to the terms of Article IV, Section 3 of the Company Certificate.

(xxvi) "Series D Pro-Rata" means the percentage obtained by dividing one share of Series D Preferred Stock by the Outstanding Company Series D Shares.

(b) Conversion of Company Capital Stock.

(i) Class M Stock. Subject to the terms hereof, as of the Effective Time, each share of Class M Stock issued and outstanding (other than shares of Class M Stock to be cancelled in accordance with subsection (iv) hereof, and any Dissenting Shares) that is vested as of immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, the Merger Sub, the Company or the Stockholders, will be cancelled and extinguished, and each such vested share of Class M Stock will at the Effective Time be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) the Class M Pro-Rata multiplied by (y) the product of (1) the Class M Allocation multiplied by (2) the Merger Consideration.

(ii) Preferred Stock. Subject to the terms hereof, as of the Effective Time, each share of Preferred Stock of the Company issued and outstanding (other than shares of Preferred Stock to be cancelled in accordance with subsection (iv) hereof, and any Dissenting Shares) immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, the Merger Sub, the Company or the Stockholders, will be cancelled and extinguished, and each such share of such Preferred Stock will at the Effective Time be converted into the right to receive the following:

(A) with respect to the Series D-1 Preferred Stock, each share of such stock will have no right to receive any portion of the Merger Consideration;

(B) with respect to the Series D Preferred Stock, each share of such stock will be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) the Series D Pro-Rata multiplied by (y) the product of (1) the Series D Allocation multiplied by (2) the Merger Consideration;

(C) with respect to the Series C Preferred Stock, each share of such stock will be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) the Series C Pro-Rata multiplied by (y) the product of (1) the Series C Allocation multiplied by (2) the Merger Consideration;

(D) with respect to the Series B Preferred Stock, each share of such stock will be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) the Series B Pro-Rata multiplied by (y) the product of (1) the Series B Allocation multiplied by (2) the Merger Consideration; and

(E) with respect to the Series A Preferred Stock, each share of such stock will be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) the Series A Pro-Rata multiplied by (y) the product of (1) the Series A Allocation multiplied by (2) the Merger Consideration.

(iii) Common Stock. Subject to the terms hereof, as of the Effective Time, each share of Common Stock issued and outstanding (other than shares of Common Stock to be cancelled in accordance with subsection (iv) hereof, and any Dissenting Shares) immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, the Merger Sub, the Company or the Stockholders, will be cancelled and extinguished,

and each such share of Common Stock will at the Effective Time be converted into the right to receive a number of shares of Purchaser Common Stock equal to the product of (x) Common Pro-Rata multiplied by (y) the product of (1) the Common Stock Allocation multiplied by (2) the Merger Consideration.

(iv) Treasury Stock; Stock Owned by the Purchaser. Each share of Company Capital Stock that is owned by the Company or the Purchaser, or by any Affiliate of the Purchaser, immediately prior to the Effective Time will automatically be cancelled and extinguished and will cease to exist, and no consideration will be delivered in exchange therefor.

(v) Generally. All Outstanding Company Shares, when so converted, will no longer be outstanding and will automatically be canceled and retired and will cease to exist, and each holder of a certificate representing such Outstanding Company Shares will cease to have any rights with respect thereto, except the right to receive the Merger Consideration issuable with respect to the shares subject to such certificate in accordance with this Article 3.

(c) Conversion of Merger Sub Capital Stock. As of the Effective Time, each issued and outstanding share of capital stock of the Merger Sub will be converted into one validly issued, fully-paid and non-assessable share of common stock, \$0.001 par value, of the Surviving Corporation.

3.2 Rights to Acquire Company Capital Stock

(a) Options. Immediately prior to the Effective Time and contingent upon the consummation of the transactions contemplated by this Agreement, all Options issued and outstanding will automatically become fully vested and will terminate at the Effective Time without any action on the part of any party. As a result of such termination, the holders of the Options will not be entitled to receive any Merger Consideration or other consideration in exchange therefor, and such Options will be cancelled and extinguished. The Company shall provide adequate notice to the holders of any such Options of the provisions of this Section 3.2(a) and shall provide an opportunity to the holders of such Options to exercise such Options effective as of immediately prior to the Effective Time and contingent upon the closing of the Merger.

(b) Warrants. Prior to the Effective Time, the Company shall take all actions necessary (including, without limitation, soliciting the written consent of or and/or waiver by the holders of any warrant) to effect a termination as of the Effective Time of each warrant to purchase any shares of Company Capital Stock that remains outstanding and is not exercised immediately prior to the Effective Time (whether such warrant is vested or unvested). For the avoidance of doubt, the Company shall not be in breach of this covenant if any warrant remains in effect as of the Effective Time as a result of the Company being unable to obtain, after having taken all actions necessary, any required consent or waiver of the holder of such warrant to the termination thereof.

(c) No Other Rights. Without limiting Sections 3.2(a) and 3.2(b), prior to the Effective Time, the Company will have taken all actions necessary or appropriate so that (i) at the Effective Time, all options, warrants, securities convertible into Company Capital Stock (other than Outstanding Company Shares) and other rights to purchase or otherwise acquire Company Capital Stock (other than Outstanding Company Shares) from the Company will be cancelled and the Option Plan will be terminated, provided that any such termination will comply with the provisions of Code Section 409A where applicable, (ii) at the Effective Time, no Person other than the holders of the Outstanding Company Shares will have any right, title or interest in or equity interests in the Company or the Surviving Corporation, (iii) the holders of Outstanding Company Shares and Options will, on and after the Effective Time, have no right, title or interest in or to the Company, the Surviving Corporation or any securities of

the Company or the Surviving Corporation (other than the right to receive the Merger Consideration or their rights with respect to any Dissenting Shares), and (iv) no Person holding any securities of the Company will have any right to acquire any securities of the Purchaser other than holders of Outstanding Company Shares, the Merger Sub or the Surviving Corporation by virtue of any such securities of the Company other than the Merger Consideration. For the avoidance of doubt, the Company shall not be in breach of this covenant if any options, warrants, securities convertible into Company Capital Stock (other than Outstanding Company Shares) and other rights to purchase or otherwise acquire Company Capital Stock remain in effect as of the Effective Time as a result of the Company being unable to obtain, after having taken all actions necessary, any required consent or waiver of the holders thereof to the termination thereof.

3.3 Exchange.

(a) Exchange Procedures. The following exchange procedures will govern the exchange of the Outstanding Company Shares at or following the Effective Time:

(i) No later than three Business Days prior to the Merger Closing Date, and subject to prior receipt by the Company of the Purchaser Fully-Diluted Capital Stock Certificate, the Company will have delivered to the Purchaser a spreadsheet setting forth (I) the name of each Stockholder as of the Merger Closing Date, (II) the number of shares and stock certificate numbers of Outstanding Company Shares held by such Stockholder as of the Effective Time, and (III) the portion of the Merger Consideration, if any, issuable to such Stockholder in accordance with the provisions hereof and of the Company Certificate as of the Closing Date (such spreadsheet, the "Final Merger Consideration Allocation Schedule"). Upon receipt by the Purchaser and Purchaser's approval thereof (which approval will not be unreasonably delayed, conditioned or withheld), the Final Merger Consideration Allocation Schedule will be appended to this Agreement as Exhibit C hereto and appended as an appropriately numbered exhibit to the Exchange Agent Agreement.

(ii) As soon as practicable after the Effective Time but in no event later than three Business Days thereafter, the Purchaser will mail, or will cause the Exchange Agent to mail, to each Stockholder at the respective addresses set forth on the Final Merger Consideration Allocation Schedule the following: (A) notice that the Closing has occurred; (B) a certified (by Purchaser's company seal) copy of the shareholders roster of the Purchaser evidencing the issuance to such Stockholder of the portion of the Merger Consideration to be issued to such Stockholder in accordance with the Final Merger Consideration Allocation Schedule, (C) a letter of transmittal in the form attached to the Exchange Agent Agreement (the "Transmittal Letter"); and (D) instructions for effecting the surrender of the Certificates (as defined herein) in exchange for the Merger Consideration issuable and payable with respect thereto.

(iii) Upon surrender of a certificate or certificates after the Effective Time which immediately prior to the Effective Time represented any Outstanding Company Shares (a "Certificate") (or an effective affidavit of loss required by Section 3.3(b)), together with a duly executed Transmittal Letter (collectively, the "Transmittal Documentation"), to the Exchange Agent, the holder of such Certificate will be entitled to receive, in exchange therefor, that portion of the Merger Consideration that such holder has the right to receive pursuant to the provisions of this Article 3, all as set forth in the Final Merger Consideration Allocation Schedule, and the surrendered Certificate will immediately be cancelled.

(iv) Within two Business Days of receipt by the Exchange Agent of the duly executed Transmittal Documentation with respect to the Outstanding Company Shares for which

the applicable Transmittal Documentation has been properly submitted, and subject to the receipt by the Exchange Agent from the Purchaser of the certificates of the Purchaser Common Stock pursuant to Section 2.2(c), the Exchange Agent will deliver to such tendering holder of such Outstanding Company Shares the share certificates representing the portion of the Merger Consideration issued to such Stockholder with respect to the Outstanding Company Shares for which the applicable Transmittal Documentation has been properly submitted.

(b) Lost, Stolen or Destroyed Certificates. In the event that any Certificates have been lost, stolen or destroyed, the Exchange Agent may, in its discretion and as a condition precedent to the issuance of any Merger Consideration in respect thereof, require the owner of such lost, stolen or destroyed Certificate to provide an affidavit of such loss, theft or destruction in a form reasonably satisfactory to the Exchange Agent and any additional documentation reasonably requested by the Exchange Agent.

(c) Dissenting Shares. The provisions of this Section 3.3 will also apply to Dissenting Shares that lose their status as such, except that the obligations of the Purchaser under this Section 3.3 will commence on the date of loss of such status and the holder of such shares will be entitled to receive in exchange for such shares, that portion of the Merger Consideration to which such holder is entitled pursuant to Section 3.1.

(d) No Further Ownership Rights in Company Capital Stock. Any Merger Consideration paid or issued upon the surrender of Certificates in accordance with the terms hereof will be deemed to be in full satisfaction of all rights pertaining to such Certificates, and there will be no further registration of transfers on the records of the Surviving Corporation of shares of Company Capital Stock which were outstanding immediately prior to the Effective Time.

(e) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed on the date that is 120 days after the Effective Time will be delivered to the Purchaser, provided that the Purchaser provides prior written notification to the Stockholder Representative of such delivery to Purchaser, and any holder of a Certificate who has not previously complied with this Section 3.3 will be entitled to receive, upon demand, only from the Purchaser that portion of the Merger Consideration to which such holder is entitled pursuant to Section 3.1.

3.4 Dissenters' Rights. Notwithstanding anything in this Agreement to the contrary, any shares of Company Capital Stock outstanding immediately prior to the Effective Time and held by a holder who has properly exercised the holder's appraisal rights in accordance with Section 262 of the DGCL or any successor provision ("Dissenting Shares") will not be converted into, or represent the right to receive, the Merger Consideration, unless and until such holder fails to perfect or effectively withdraws or otherwise loses such holder's right to appraisal and payment under the DGCL. If, after the Effective Time, any such holder fails to perfect or effectively withdraws or loses his right to appraisal, then such Dissenting Shares will thereupon be treated as if they had been converted as of the Effective Time into the right to receive that portion of the Merger Consideration payable with respect to such shares, without interest or dividends thereon, upon the surrender of the Certificate(s) which formerly represented such Dissenting Shares, in the manner provided in Section 3.3. The Company will give (a) the Purchaser and the Stockholder Representative prompt notice of any written demands received by the Company for appraisal of shares of Company Capital Stock, attempted withdrawals of such demands and any other instrument served pursuant to the DGCL and received by the Company relating to stockholders' rights of appraisal, and (b) the Purchaser the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. The Company will not voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment, except with the prior written consent of the Purchaser.

3.5 Taking of Necessary Action; Further Action.

(a) Merger Closing. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Purchaser with control over, and to vest the Surviving Corporation with full right, title and possession to, all assets, property, rights, privileges, powers and franchises of the Company, the officers and directors of the Company and the Stockholder Representative will and are hereby authorized to, in the name of their respective corporations or otherwise, take all such lawful and necessary action as may be requested by the Purchaser.

(b) Company Option Closing. If, at any time after the Company Option Closing, any further action is necessary or desirable to vest the Company with full right, title and possession to the shares of Purchaser Common Stock constituting the Merger Consideration, the officers and directors of the Purchaser will use commercially reasonable efforts to take all such lawful and necessary action as may be requested by the Company.

3.6 Taxes. Notwithstanding any other provision of this Agreement, the Purchaser will have the right to collect a FIRPTA Certificate substantially in the form attached hereto as Exhibit D from the Company and Forms W-8 or W-9 or other similar forms from the Stockholders to the extent required by any foreign, federal, state or local laws. The parties intend that (i) the Merger will be treated as a tax-free reorganization for federal income tax purposes and (ii) all of the Merger Consideration will be treated for federal income tax purposes as payments in exchange for the Company Capital Stock owned by the Stockholders. The parties agree to report the transactions contemplated by this Agreement in a manner consistent with that intent. The Purchaser will take no action inconsistent with such intended treatment, including merging the Company into the Purchaser or any direct or indirect subsidiary of Purchaser in connection with the Merger.

3.7 Securities Law Compliance.

(a) The Merger Consideration will be issued in a transaction exempt from registration under the Securities Act by reason of Section 4(2) thereof and/or Regulation D promulgated under the Securities Act or Section 3(a)(10) of the Securities Act and may not be re-offered or resold other than in conformity with the registration requirements of the Securities Act and such other applicable rules and regulations or pursuant to an exemption therefrom.

(b) The certificates representing shares of Purchaser Common Stock will be legended as follows:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

Such certificates will also include such additional legends as necessary to comply with applicable foreign, federal and state securities laws. The certificates representing the Purchaser Common Stock will be

subject to a stop transfer order with the Purchaser's transfer agent that restricts the transfer of such shares of Purchaser Common Stock except in compliance herewith.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth on the Disclosure Schedule delivered by the Company to the Purchaser simultaneous with the execution of this Agreement (the "Company Disclosure Schedule"), the Company hereby represents and warrants to the Purchaser that the following statements are true and correct as of the Agreement Date.

4.1 Organization, Good Standing and Qualification. (a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. (b) The Company has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as presently conducted, and to execute and deliver this Agreement and the Ancillary Agreements. (c) Company is duly qualified to do business and is in good standing as a foreign corporation in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so as of the Agreement Date would not have a material adverse effect on the Company, its assets (including intellectual property assets) or its business.

4.2 Subsidiaries. The Company does not own or control any equity security or other interest of any other corporation, partnership, limited liability company or other business entity. The Company is not a participant in any joint venture, partnership, limited liability company or similar arrangement. Since its inception, the Company has not consolidated or merged with, acquired all or substantially all of the assets of, or acquired the stock of or any interest in any corporation, partnership, limited liability company or other business entity.

4.3 Capitalization, Voting Rights.

(a) The authorized capital stock of the Company, as of the Agreement Date, consists of (i) 875,000,000 shares of Common Stock, par value \$0.001 per share, 24,855,554 shares of which are issued and outstanding as of the Agreement Date, (ii) 722,085,875 shares of Preferred Stock, par value \$0.001 per share, 64,360,000 shares of which are designated Series A Preferred Stock, 64,000,000 of which are issued and outstanding and 360,000 shares of which have been reserved for issuance upon exercise of outstanding warrants, in each case as of the Agreement Date, and 61,500,000 shares of which are designated Series B Preferred Stock, 58,819,540 of which are issued and outstanding as of the Agreement Date and 1,322,222 have been reserved for issuance upon exercise of outstanding warrants, 72,243,347 shares of which are designated as Series C Preferred Stock, 58,134,137 of which are issued and outstanding as of the Agreement Date, 408,864,129 of which are Series D Preferred Stock, 259,728,080 shares of which are issued and outstanding as of the Agreement Date, and 114,848,399 shares of which is Series D -1 Preferred Stock, 114,841,391 shares of which are issued and outstanding as of the Agreement Date and immediately after completion of the Closing under the Series D-1 Purchase Agreement and (iii) 54,904,794 shares of Class M Stock, none of which are issued and outstanding as of the Agreement Date.

(b) Under the Company's 2005 Equity Incentive Plan (the "2005 Plan"), (i) 1,162,336 shares have been issued pursuant to restricted stock purchase agreements and/or the exercise of outstanding options, which are included in Section 3.3(a) as outstanding shares of Common Stock, (ii) 34,468,586 options to purchase shares have been granted and are currently outstanding, and (iii) 4,706,078 shares of Common Stock remain available for future issuance to officers, directors,

employees and consultants of the Company. Under the Company's 2010 Equity Incentive Plan (the "2010 Plan" and collectively with the 2005 Plan, the "Plans"), 54,904,794 shares of Class M Stock have been reserved for issuance to officers, directors, employees and consultants of the Company, none of which are issued and outstanding.

(c) Other than (i) the shares reserved for issuance under the Plans, and (ii) warrants issued pursuant to (x) the Convertible Note and Warrant Purchase Agreement, dated as of April 25, 2007 between the Company and certain investors, and (y) the Note and Warrant Purchase Agreement dated March 8, 2010, as amended, between the Company and certain investors and the Amended and Restated Second 2010 Note and Warrant Purchase Agreement dated August 23, 2010 between the Company, the Purchaser and certain investors, there are no outstanding options, warrants, rights (including conversion or preemptive rights, anti-dilution rights and rights of first refusal), proxy or stockholder agreements, or agreements of any kind for the purchase or acquisition from the Company of any of its securities.

(d) All issued and outstanding shares of the Company's Common Stock and securities to purchase the same (i) have been duly authorized and validly issued and are fully paid and nonassessable, (ii) were issued in compliance with all applicable state and federal laws concerning the issuance of securities; and (iii) with respect to Common Stock only, are subject to a right of first refusal in favor of the Company upon transfer. The Company has not repurchased or made any redemption of any of its Common Stock except for repurchases made resulting from termination of employment or consulting services (whether actual or constructive).

(e) All outstanding shares of Common Stock and Preferred Stock, and all shares of Common Stock and Preferred Stock issuable upon the exercise or conversion of outstanding options, warrants or other exercisable or convertible securities are subject to a market standoff or "lockup" agreement of not less than 180 days following the Company's initial public offering.

(f) All options granted and Common Stock issued as equity compensation to directors, employees or consultants vest as follows: twenty-five percent (25%) of the shares vest one (1) year following the vesting commencement date, with the remaining seventy-five percent (75%) vesting in equal monthly installments over the next three (3) years. No stock plan, stock purchase, stock option or other agreement or understanding between the Company and any holder of any equity securities or rights to purchase equity securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of (i) termination of employment or consulting services (whether actual or constructive); (ii) any merger, consolidated sale of stock or assets, change in control or any other transaction(s) by the Company; or (iii) the occurrence of any other event or combination of events.

(g) The Company has delivered to the Purchaser or its counsel a true and complete list of the securityholders of the Company, showing the number of shares of Common Stock or other securities of the Company held by each securityholder as of the Agreement Date and, in the case of options, warrants and other convertible securities, the exercise price thereof and the number and type of securities issuable thereunder.

4.4 Authorization; Binding Obligations. Subject to approval of the Merger and adoption of this Agreement by the stockholders of the Company, the Company has all requisite corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements and to perform its obligations under this Agreement and each such Ancillary Agreement. Subject to approval of the Merger and adoption of this Agreement by the stockholders of the Company, the execution, delivery and performance of this Agreement and the Ancillary Agreements have been duly authorized by all necessary action on the part of the Company. This Agreement has been duly executed and delivered by the

Company and, assuming the due authorization, execution and delivery by each of the other parties to the Agreement, constitutes the legal, valid and binding obligation of the Company, subject only to the approval of the stockholders of the Company and the governmental approvals listed in Section 4.17, enforceable against the Company in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency, and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies. Upon the execution and delivery by the Company of the Ancillary Agreements, and assuming the due authorization, execution and delivery by each of the other parties to each Ancillary Agreement, such Ancillary Agreements will constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to (a) laws of general application relating to bankruptcy, insolvency, and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

4.5 Financial Statements. Attached to the Company Disclosure Schedule as Appendix A thereto are (i) the Company's audited balance sheet, and statement of operations and cash flows of the Company for the period ended December 31, 2009 and (ii) the Company's unaudited balance sheet and statement of operations of the Company dated September 30, 2010 (the "Company Interim Balance Sheet") (all such financial statements in clauses (i) and (ii) being collectively referred to herein as the "Company Financial Statements"). Such Financial Statements (a) present fairly the financial condition of the Company at the date or dates therein indicated and the results of operations for the period or periods therein specified, and (b) have been prepared in accordance with generally accepted United States accounting principles ("U.S. GAAP") applied on a consistent basis, except, as to the unaudited Financial Statements, for the omission of notes thereto and normal year-end audit adjustments.

4.6 No Undisclosed Liabilities. The Company has no Liability of a nature required to be disclosed on a balance sheet or in the related notes to the financial statements prepared in accordance with U.S. GAAP except for (a) Liabilities accrued or expressly reserved for in specific line items on the Company Interim Balance Sheet, (b) Liabilities incurred in the ordinary course of business after the date of the Company Interim Balance Sheet, (c) Liabilities incurred in the ordinary course pursuant to contractual obligations, or (d) Liabilities incurred directly in connection with the transactions contemplated by this Agreement and the Ancillary Agreements and as expressly contemplated by this Agreement and the Ancillary Agreements.

4.7 Agreements; Action.

(a) There are no agreements, understandings, instruments, contracts (oral or written), proposed transactions, judgments, orders, writs or decrees to which the Company is a party or to its knowledge by which it is bound which may involve (i) future obligations (contingent or otherwise) of, or payments to, the Company in excess of \$25,000, or (ii) the transfer or license of any patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses by the Company of "off the shelf" or other standard products), or (iii) provisions restricting the development, manufacture or distribution of the Company's products or services, or (iv) indemnification by the Company with respect to infringements of proprietary rights other than pursuant to contracts entered into in the ordinary course of business, or (v) which are otherwise material to the Company, its assets or its business.

(b) The Company has not (i) accrued, declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock, (ii) incurred or guaranteed any indebtedness for money borrowed or any other liabilities (other than trade payables incurred in the ordinary course of business) individually in excess of \$25,000 or, in the case of indebtedness and/or liabilities individually less than \$25,000, in excess of \$50,000 in the aggregate, (iii) made any loans or advances to any person, other than ordinary advances for travel or business

expenses, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory in the ordinary course of business.

(c) For the purposes of subsections (a) and (b) above, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same person or entity (including persons or entities the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsections.

4.8 **Obligations to Related Parties.** There are no obligations of the Company to officers, directors, stockholders, or employees of the Company other than for (a) payment of salary for services rendered, (b) reimbursement for reasonable expenses incurred on behalf of the Company and (c) other standard employee benefits made generally available to all employees (including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company). None of the current officers, directors, stockholders or key employees of the Company or any members of their immediate families, is indebted to the Company, or to the Company's knowledge, none of the Company's officers, directors or key employees has any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation that competes with the Company, other than (i) passive investments in companies (representing less than 1% of such company) which may compete with the Company or (ii) investments by directors personally or through venture capital funds or investment entities with which the directors of the Company may be affiliated. No officer, director or stockholder, or any member of their immediate families, is, directly or indirectly, interested in any material contract with the Company (other than such contracts as relate to any such person's ownership of capital stock or other securities of the Company or offer letters made in the ordinary course of business).

4.9 **Title to Properties and Assets; Liens, Etc.** The Company has good and marketable title to its properties and assets and good marketable title to its leasehold estates, in each case free and clear of Encumbrances other than Permitted Encumbrances. With respect to its properties and assets in which the Company has a valid leasehold interest, the Company is in material compliance with such leases.

4.10 **Intellectual Property.**

(a) The Company owns all right, title and interest, free and clear of Encumbrances other than Permitted Encumbrances, or is duly licensed under or otherwise authorized to use all patents, patent applications, inventions whether or not patentable, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, moral rights, confidential and proprietary information, compositions of matter, formulas, designs and other proprietary rights and processes (collectively "**Intellectual Property**") sufficient for the conduct of the Company business as now conducted and as presently proposed to be conducted. To the Company's knowledge, it has not violated or infringed, and is not currently violating or infringing, any Intellectual Property of any other person or entity. There are no outstanding options, licenses or agreements of any kind relating to the Intellectual Property owned by the Company, nor is the Company bound by or a party to any options, licenses or agreements of any kind (except for non-disclosure agreements entered into in the ordinary course of business) with respect to its Intellectual Property. Other than license fees for software that is generally commercially available, the Company is not obligated to pay any royalties or other compensation to any third party in respect of its ownership, use or license of any of its Intellectual Property. The Company has never agreed to indemnify any person for or against any interference, infringement, misappropriation or other conflict with respect to Intellectual Property.

(b) Schedule 3.10(b) of the Company Disclosure Schedule identifies each (i) patent that has been issued or assigned to the Company with respect to any of its Intellectual Property,

(ii) pending patent application that the Company has made with respect to any of its Intellectual Property, (iii) copyright or trademark registration or application with respect to the Intellectual Property of the Company, and (iv) service mark or domain name registration or application with respect to the Intellectual Property of the Company.

(c) The Company owns all right, title and interest in the patents listed in Schedule 4.10(b)(i) of the Company Disclosure Schedule and the pending patent applications listed in Schedule 4.10(b)(ii) of the Company Disclosure Schedule.

(d) The Company has not received any communications alleging that the Company has violated or, by conducting its business as presently proposed to be conducted, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity.

(e) The Company has taken all commercially reasonable necessary and appropriate steps to protect, preserve and maintain the secrecy and confidentiality of Company confidential information and to preserve and maintain all Company's interests and proprietary rights in the Company's Intellectual Property. The Company is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with such employee's duties to the Company or that would conflict with the Company's business as conducted and as presently proposed to be conducted. All current and former founders, employees, consultants of the Company or other third parties engaged by the Company for the purpose of developing Intellectual Property have entered into a valid and binding written proprietary information and inventions agreement in the form(s) as delivered to the Purchaser and all such agreements are in full force and effect. No employee, officer or consultant of the Company has excluded works or inventions made prior to his or her employment with the Company from his or her assignment of inventions pursuant to such employee, officer or consultant's proprietary information and inventions agreement. The Company does not believe it is or will be necessary to utilize any inventions of any employees of the Company (or persons the Company currently intends to hire) made prior to their employment by the Company.

(f) The Company has not (i) incorporated Open Source Materials into, or combined Open Source Materials with, the Company Software; (ii) distributed Open Source Materials in conjunction with any Company Software; or (iii) used Open Source Materials that create, or purport to create, obligations for the Company with respect to any Company Software or grant, or purport to grant, to any third party, any rights or immunities under any Intellectual Property of the Company (including, but not limited to, using any Open Source Materials that require, as a condition of use, modification or distribution of such Open Source Materials that other software incorporated into, derived from or distributed with such Open Source Materials be (A) disclosed or distributed in source code form, (B) be licensed for the purpose of making derivative works, or (C) be redistributable at no charge).

(g) No government funding; facilities of a university, college, other educational institution or research center; or funding from third parties (other than funds received in consideration for convertible debt or equity investments in the Company or from borrowings from banks or other financial institutions) was used in the development of Intellectual Property by or on behalf of the Company. No current or former founder, employee, consultant or independent contractor of Company, who was involved in, or who contributed to, the creation or development of any Intellectual Property by or on behalf of the Company, has performed services for the government, university, college, or other educational institution or research center during a period of time during which such founder, employee, consultant or independent contractor was also performing services for Company.

4.11 Compliance with Other Instruments. The Company is not in violation or default of any term of its charter documents, each as amended, or of any material provision of any mortgage, indenture, contract, lease, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order or writ. The execution, delivery, and performance of and compliance with this Agreement, and the Ancillary Agreements, will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a material default under any such term or provision, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties.

4.12 Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company that would reasonably be expected to result, either individually or in the aggregate, in any Material Adverse Change to the Company, or any change in the current equity ownership of the Company or that questions the validity of this Agreement or the Ancillary Agreements or the right of the Company to enter into any of such agreements, or to consummate the transactions contemplated hereby or thereby. The foregoing includes, without limitation, actions pending or, to the Company's knowledge, threatened in writing involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, or their obligations under any agreements with prior employers. The Company is not a party to, or to its knowledge subject to the provisions of, any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

4.13 Tax Returns and Payments. The Company is and always has been a subchapter C corporation. The Company has filed all tax returns (federal, state and local) required to be filed by it. All taxes shown to be due and payable on such returns, any assessments imposed, and to the Company's knowledge all other taxes due and payable by the Company on or before the Agreement Date, have been paid or will be paid prior to the time they become delinquent. The Company has not been advised (a) that any of its returns, federal, state or other, have been or are being audited as of the date hereof, or (b) of any deficiency in assessment or proposed judgment to its federal, state or other taxes.

4.14 Employees. The Company currently employs 42 individuals. The Company has no collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's knowledge, threatened with respect to the Company. The Company is not a party to or bound by any currently effective employment contract, deferred compensation arrangement, bonus plan, incentive plan, profit sharing plan, retirement agreement or other employee compensation plan or agreement. All employees of the Company are engaged by the Company on an at-will basis. No employee of the Company has been granted the right to continued employment by the Company or to any material compensation following termination of employment with the Company. To the Company's knowledge, no employee of the Company, nor any consultant with whom the Company has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company; and to the Company's knowledge the continued employment by the Company of its present employees, and the performance of the Company's contracts with its independent contractors, will not result in any such violation. The Company has not received any notice alleging that any such violation has occurred. The Company is not aware that any officer, key employee or group of employees intends to terminate his, her or their employment with the Company, nor does the Company have a present intention to terminate the employment of any officer, key employee or group of employees. There are no actions pending, or to the Company's knowledge, threatened, by any former or current employee concerning such

person's employment by the Company. To the Company's knowledge, the Company has complied with applicable state and federal equal employment opportunity laws and with other laws related to employment.

4.15 Obligations of Management. Each officer and key employee of the Company is currently devoting substantially all of his or her business time to the conduct of the business of the Company. The Company is not aware that any officer or key employee of the Company is planning to work less than full time at the Company in the future. No officer or key employee is currently working or, to the Company's knowledge, plans to work for a competitive enterprise, whether or not such officer or key employee is or will be compensated by such enterprise.

4.16 Compliance with Laws; Permits. To its knowledge, the Company is not in material violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties. Neither the execution, delivery and performance of this Agreement by the Company, nor the consummation by the Company of the transactions contemplated by this Agreement, will require the Company to obtain any material consent, waiver, approval, ratification, permit, license, Governmental Authorization or other authorization of, give any notice to, or make any filing or registration with, any Governmental Authority, except approval by the Investment Commission of Ministry of Economic Affairs of the Republic of China. The Company has all franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could cause a Material Adverse Change to the Company and the Company believes it can obtain, without undue burden or expense, any similar authority for the conduct of its business as presently proposed to be conducted.

4.17 Environmental and Safety Laws. To its knowledge, the Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

4.18 Insurance. The Company has general commercial, product liability, fire and casualty insurance policies with coverage customary for companies similarly situated to the Company.

4.19 Brokers or Finders. Neither the Company nor any Person acting on behalf of the Company has incurred any Liability for brokerage or finders' fees or agents' commissions or other similar payment in connection with any of the transactions contemplated by this Agreement.

4.20 Full Disclosure. Neither this Agreement, the exhibits hereto, the Ancillary Agreements nor the Company Disclosure Schedule contain any untrue statement of a material fact nor, to the Company's knowledge, omit to state a material fact necessary in order to make the statements contained herein or therein not misleading.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Company that as of the date of this Agreement the statements set forth in this Article 5 are true and correct, except as set forth in the disclosure letter delivered herewith (the "Purchaser Disclosure Schedule"):

5.1 Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the Laws of the Republic of China and has all requisite corporate

power and authority to conduct its business as presently conducted. The Purchaser is duly qualified or licensed to do business and, where applicable as a legal concept, is in good standing as a foreign corporation in each jurisdiction in which the character of the properties it owns, operates or leases or the nature of its activities makes such qualification or licensure necessary except where the failure to be so qualified would not have a Material Adverse Change on the Purchaser. When it becomes a party to this Agreement as contemplated by Section 7.14, Merger Sub shall be a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and shall have all requisite corporate power to enter into this Agreement and the Ancillary Agreements to which it is a party and perform its obligations thereunder.

5.2 Authority and Enforceability. Subject to the approval of the stockholders of the Purchaser as may be required under the Laws of the Republic of China, which approval will be obtained prior to the Closing, the Purchaser has and, when it becomes a party to this Agreement, the Merger Sub shall have, all requisite corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which it is a party and to perform its obligations under this Agreement and each such Ancillary Agreement. The execution, delivery and performance of this Agreement and the Ancillary Agreements have been duly authorized by all necessary action on the part of the Purchaser. The execution, delivery and performance of this Agreement and the Ancillary Agreements shall have been duly authorized by all necessary action on the part of Merger Sub at the time that it executes this Agreement. This Agreement has been duly executed and delivered by the Purchaser and, at the time it becomes a party to this Agreement, shall have been duly executed and delivered by the Merger Sub and, assuming the due authorization, execution and delivery by each of the other parties to the Agreement, constitutes, in the case of the Purchaser, or shall constitute at the time it becomes a party to this Agreement, in the case of Merger Sub, the legal, valid and binding obligation of the Purchaser and the Merger Sub, subject only to the approval of the stockholders of the Purchaser (which will be obtained prior to the Closing) and the governmental approvals listed in Section 5.3, enforceable against the Purchaser and upon execution hereof, against the Merger Sub in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency, and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies. Upon the execution and delivery by the Purchaser and the Merger Sub of the Ancillary Agreements to which they are a party, and assuming the due authorization, execution and delivery by each of the other parties to each Ancillary Agreement, such Ancillary Agreements will constitute the legal, valid and binding obligations of the Purchaser and the Merger Sub, enforceable against the Purchaser and the Merger Sub in accordance with their terms, subject to (a) laws of general application relating to bankruptcy, insolvency, and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

5.3 Compliance with Other Instruments. The Purchaser is not in violation or default of any term of its charter documents, each as amended, or of any material provision of any mortgage, indenture, contract, lease, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order or writ. The execution, delivery, and performance of and compliance with this Agreement, and the Ancillary Agreements, will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a material default under any such term or provision, or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Purchaser or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Purchaser, its business or operations or any of its assets or properties.

5.4 Consents. Neither the execution, delivery and performance of this Agreement by the Purchaser or the Merger Sub, nor the consummation by the Purchaser and the Merger Sub of the transactions contemplated by this Agreement, will require the Purchaser or the Merger Sub to obtain any

material consent, waiver, approval, ratification, permit, license, Governmental Authorization or other authorization of, give any notice to, or make any filing or registration with, any Governmental Authority, except approval by the Investment Commission of Ministry of Economic Affairs of the Republic of China.

5.5 Financial Statements. The audited consolidated balance sheet of the Purchaser as of December 31, 2009 (the "Purchaser's Balance Sheet") and the related audited consolidated statements of income, changes in stockholders' equity and cash flow for the fiscal year then ended made available to the Company (i) have been prepared in accordance with generally accepted accounting principles of the Republic of China (Taiwan) applied on a consistent basis throughout the periods indicated (other than the provision of notes in connection with interim financial statements) and (ii) fairly represent the consolidated financial position of the Purchaser at the respective dates thereof and the consolidated financial position of Purchaser at the periods indicated (subject to normal recurring year-end adjustments).

5.6 No Undisclosed Liabilities. The Purchaser has no Liability of a nature required to be disclosed on a balance sheet or in the related notes to the financial statements prepared in accordance with generally accepted accounting principles of the Republic of China (Taiwan) except for (a) Liabilities accrued or expressly reserved for in specific line items on the Purchaser's Balance Sheet, (b) Liabilities incurred in the ordinary course of business after the date of the Purchaser's Balance Sheet, (c) Liabilities incurred in the ordinary course pursuant to contractual obligations or (d) Liabilities incurred directly in connection with the transactions contemplated by this Agreement and as expressly contemplated by this Agreement.

5.7 Legal Proceedings. There is no action, suit, proceeding or investigation pending or, to the Purchaser's knowledge, currently threatened against the Purchaser that would reasonably be expected to result, either individually or in the aggregate, in any Material Adverse Change to the Purchaser, or any change in the current equity ownership of the Purchaser or that questions the validity of this Agreement or the Ancillary Agreements or the right of the Purchaser to enter into any of such agreements, or to consummate the transactions contemplated hereby or thereby.

5.8 Taxes. Except as would not result in a Material Adverse Change on the Purchaser, (i) the Purchaser has filed all Tax Returns required to be filed by it; (ii) all Taxes shown to be due and payable on such returns, any assessments imposed and, to the Purchaser's knowledge, all other Taxes due and payable by the Purchaser as of the Agreement Date have been paid or will be paid prior to the time they become delinquent; and (iii) the Purchaser has not been advised (a) that any of its returns have been or are being audited as of the date hereof, or (b) of any deficiency in assessment or proposed judgment to its Taxes.

5.9 Capitalization. As of the Agreement Date, the authorized capital stock of the Purchaser, and the issued and outstanding capital stock of the Purchaser, are as set forth in Section 5.8 of the Purchaser Disclosure Schedule. Except as described on Section 5.8 of the Purchaser Disclosure Schedule, as of the Agreement Date, there are, and as of the Effective Time or the Company Option Closing, as applicable, there will be (a) no agreements or other obligations to which the Purchaser is a party or by which it is bound to issue, deliver, redeem, purchase or sell any shares of its capital stock or other securities, and (b) no outstanding convertible or exchangeable securities, options, warrants, calls, commitments or agreements or other rights obligating the Purchaser to issue, deliver, sell or acquire any shares of its capital stock or other securities or obligating the Purchaser to issue any such convertible or exchangeable securities or grant any such options, warrants, calls, commitments or agreements or other rights. At the time Merger Sub becomes a party to this Agreement, all issued and outstanding equity capital of Merger Sub shall be owned by Purchaser, and there will be (a) no agreements or other

obligations to which the Merger Sub shall be a party or by which it is bound to issue, deliver, redeem, purchase or sell any shares of its capital stock or other securities, and (b) no outstanding convertible or exchangeable securities, options, warrants, calls, commitments or agreements or other rights obligating the Merger Sub to issue, deliver, sell or acquire any shares of its capital stock or other securities or obligating the Merger Sub to issue any such convertible or exchangeable securities or grant any such options, warrants, calls, commitments or agreements or other rights.

5.10 Issuance of Securities. At the Closing, the Merger Consideration will be duly and validly authorized, upon issuance in accordance with the terms of this Agreement, will be validly issued, fully paid, nonassessable and free and clear from all preemptive or similar rights, or Encumbrances, other than restrictions on transfer under applicable securities Laws, and will have the respective rights and designations set forth in the Purchaser Articles as in effect on the date hereof. Upon issuance in accordance with the terms of this Agreement, all rights of the Purchaser Common Stock set forth in the Purchaser Articles will be valid rights of the stockholders under the applicable Laws of the Republic of China relating to corporations incorporated in the Republic of China.

5.11 No Prior Merger Sub Operations. At the time it becomes a party to this Agreement, Merger Sub shall have been formed solely for the purpose of effecting the Merger and shall not have engaged, and will not engage, in any business activities or operations other than in connection with the transactions contemplated hereby.

5.12 Brokers or Finders. Neither the Purchaser nor the Merger Sub nor any Person acting on behalf of the Purchaser or Merger Sub has incurred any Liability for brokerage or finders' fees or agents' commissions or other similar payment in connection with any of the transactions contemplated by this Agreement.

5.13 Full Disclosure. Neither this Agreement, the exhibits hereto, the Ancillary Agreements nor the Purchaser Disclosure Schedule contains any untrue statement of a material fact nor, to the Purchaser's knowledge, omit to state a material fact necessary in order to make the statements contained herein or therein not misleading

ARTICLE 6 CONDITIONS PRECEDENT TO OBLIGATION TO CLOSE

6.1 Mutual Conditions. Without limiting any other provision of this Agreement, the parties' obligations to consummate the Merger or the Company Option Closing, as applicable, are subject to the satisfaction (or waiver by each such party, in its sole discretion) of each of the conditions set forth in this Section 6.1 on or before the Closing Date or the Company Option Closing Date, respectively. If the Merger or the Company Option Closing, as applicable, is consummated, such conditions will conclusively be deemed to have been satisfied or waived.

(a) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction, or other order issued by any court of competent jurisdiction, or other legal restraint or prohibition preventing the consummation of the Merger or the Company Option Closing, shall be in effect, and no petition or request for any such injunction or other order shall be pending.

(b) ROC Foreign Investment Act Approval. Any and all authorizations, permits or clearances from the ROC Foreign Investment Commission (the "IC") or otherwise under the ROC Foreign Investment Act that are required to have been obtained on or prior to the Closing in connection with this Agreement, the Merger, the Company Option and the consummation of the Merger or the exercise of the Company Option, as applicable, and the other transactions contemplated hereunder and the

issuance of the Merger Consideration shall have been obtained. In connection with consummation of the Merger, (i) each Stockholder who will receive any portion of the Merger Consideration pursuant to the terms of this Agreement must have completed, executed and delivered (A) a power of attorney properly notarized and/or authenticated authorizing an agent in the Republic of China to act on its behalf with respect to the IC, (B) notarized and authenticated certificate of incorporation (or passport copy for individuals), (C) an agreement to exchange shares, in the form attached hereto as Exhibit E and (D) such other supporting documentation or information as may be requested by the IC, and (ii) the Purchaser and the Company must have executed and delivered a cooperation agreement in the form attached hereto as Exhibit F. In connection with the consummation of the exercise of the Company Option, the Company must have completed, executed and delivered (A) a power of attorney properly notarized and/or authenticated authorizing an agent in the Republic of China to act on its behalf with respect to the IC, (B) notarized and authenticated Company Certificate, and (C) such other supporting documentation or information as may be requested by the IC.

(c) Ancillary Agreements. Each of the Ancillary Agreements must have been executed and delivered by each of the parties thereto, and each such Ancillary Agreement will be in full force and effect, subject to any amendment thereto in accordance with the terms thereof prior to the Effective Time or the Company Option Closing, as applicable.

(d) Securities Law Exemption. The shares of Purchaser Common Stock to be issued in connection with the transactions contemplated by this Agreement will have been issued in a transaction exempt from registration under foreign, federal and state securities laws as described in Section 7.13.

(e) Company Stockholder Approval. The stockholders of the Company will have approved and adopted this Agreement, the Merger and the transactions contemplated by this Agreement by the requisite vote under applicable Law and the Company's certificate of incorporation, as amended to date.

(f) Merger Certificate. In the case of the consummation of the Merger, each of the parties will have delivered a certificate of merger, signed on behalf of each party, in accordance with the DGCL.

6.2 Conditions to the Obligation of the Purchaser and the Merger Sub. The obligations of the Purchaser and the Merger Sub to consummate the Merger are subject to the satisfaction, on or before the Closing Date, of each of the conditions set forth in this Section 6.2 (any of which may be waived by the Purchaser, in whole or in part, but only in a writing signed by the Purchaser).

(a) Representations and Warranties. The representations and warranties made by the Company in Section 4.1(a) of this Agreement shall be true and correct in all respects when made and shall be true and correct in all respects as of the Closing Date as though each such representation and warranty had been made on and as of the Closing Date.

(b) FIRPTA Certificate. The Company shall have delivered to the Purchaser a properly executed statement, dated as of the Closing Date, in a form attached hereto as Exhibit D conforming to the requirements of Treasury Regulations Section 1.1445-2(c)(3) and a properly executed notice as described in Treasury Regulation Section 1.897-2(h).

ARTICLE 7
INTERIM COVENANTS

7.1 Access and Investigation. During the period from the Agreement Date until the earlier of the Closing or termination of this Agreement, upon reasonable advance notice from the Purchaser, the Company will use commercially reasonable efforts to (a) afford the Purchaser and its directors, officers, employees, agents, consultants and other advisors and representatives full access during normal business hours to its properties, books, Contracts, personnel and records as the Purchaser may reasonably request (provided, that such access shall not unreasonably interfere with the business or operations of the Company), and (b) furnish promptly to the Purchaser and its directors, officers, employees, agents, consultants and other advisors and representatives all other information concerning its business, properties, assets and personnel as the Purchaser may reasonably request, to the extent permitted by applicable Law, provided, however, that with respect to any documents or other information subject to the attorney-client privilege, attorney work product doctrine or other applicable privilege, the Purchaser will cooperate with the Company to develop procedures (such as a common legal interest agreement) to allow such documents and information to be shared with the Purchaser and its representatives without waiving such attorney-client privilege, attorney work product doctrine or other applicable privilege.

7.2 Operation of the Business of the Company.

(a) From the date of this Agreement until the earlier of the Closing or termination of this Agreement, and other than (i) as expressly contemplated or permitted by this Agreement, (ii) required by applicable Law, (iii) as requested in writing by the Purchaser or (iv) as determined by the board of directors of the Company, which determination would not constitute a violation of its fiduciary responsibilities, the Company will (x) conduct its business only in the ordinary course of business, and (y) use commercially reasonable efforts to preserve and protect its business organization, assets, employment relationships, and relationships with customers, strategic partners, suppliers, distributors, landlords and others doing business with it.

(b) Without limiting the generality of the foregoing, the Company will not take any of the following actions without the prior written consent of the Purchaser:

- (i) incur any Indebtedness;
 - (ii) declare or pay any dividends in respect of any of its capital stock;
 - (iii) sell, lease, license or otherwise dispose of or encumber (other than Permitted Encumbrances) any of its material properties or material assets, other than sales and nonexclusive licenses of Company products in the ordinary course of business;
 - (iv) acquire by merger or consolidation with, or by purchase of all or a substantial portion of the assets or any stock of, any business or Person;
 - (v) make any capital expenditure that is in excess of US\$50,000 in a single transaction or capital expenditures which exceed \$250,000 in the aggregate;
 - (vi) change any accounting policies or auditor;
 - (vii) amend or otherwise change its organizational documents other than as contemplated by this Agreement;
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(viii) issue any shares, options, warrants or other securities, or change its capital structure, other than (a) the issuance of shares of capital stock upon exercise of options or warrants that are outstanding as of the Agreement Date, (b) the issuance of Class M Shares to employees, consultants, directors and other service providers of the Company or the repurchase thereof upon termination of employment or the engagement of any such person upon the terms provided in the agreement related to the issuance of such Class M Shares and (c) the issuance of shares of capital stock of the Company to existing Stockholders for the purpose of raising working capital;

(ix) initiate or settle any claim or proceedings with a value of \$100,000 or more;

(x) enter into a new line of business or joint venture (other than the entry by the Company into any contract with any customer, distributor or supplier); or

(xi) initiate liquidation or dissolution procedures.

7.3 Consents and Filings; Reasonable Efforts. Until the earlier of the Closing or the termination of this Agreement, each of the parties will use their respective commercially reasonable efforts (i) to take promptly, or cause to be taken (including actions after the Closing), all actions, and to do promptly, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement and (ii) as promptly as practicable after the date of this Agreement, to obtain all Governmental Authorizations from, give all notices to, and make all filings with, all Governmental Authorities, and to seek to obtain all other consents, waivers, approvals and other authorizations from, and give all other notices to, all other third parties, that are necessary or advisable in connection with the authorization, execution and delivery of this Agreement.

7.4 No Negotiation. Until the earlier of the Closing or the termination of this Agreement, the Company will not (and it will not permit or authorize, as applicable, any of its respective Affiliates, directors, officers, stockholders, employees, agents, consultants and other advisors and representatives to), directly or indirectly (a) solicit, initiate, knowingly encourage, knowingly facilitate, or consider any inquiry or the making of any proposal or offer, (b) enter into, continue or otherwise participate in any discussions or negotiations, or enter into any Contract, (c) furnish to any Person any non-public information or grant any Person access to its properties, books, Contracts, personnel and records, or (d) approve or recommend, or propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principal, merger agreement, acquisition agreement, option agreement or other similar agreement or propose, whether publicly or to any director or stockholder, or agree to do any of the foregoing for the purpose of knowingly encouraging or knowingly facilitating any proposal, offer, discussions or negotiations; in each case regarding any business combination transaction involving the Company, or any other transaction to acquire any material portion of the assets (or any portion of Company Intellectual Property), business or properties of the Company, or the acquisition of voting securities of the Company (whether or not outstanding), whether by merger, purchase of assets, purchase of stock, tender offer, license or otherwise, other than with the Purchaser (an "Acquisition Transaction"), provided, however, that nothing in this Section 7.4 shall prohibit sales or dispositions of assets that are permitted under Section 7.2(b)(iii) or the issuance of securities as permitted under Section 7.2(b)(viii). The Company will immediately cease and cause to be terminated any such negotiations, discussion or Contracts (other than with the Purchaser) that are the subject of clauses (a) or (b) above and will immediately cease providing and secure the return of any non-public information and terminate any access of the type referenced in clause (c) above. If the Company or any of its Affiliates, directors, officers, employees, agents, consultants or other advisors and representatives receives, prior to the Closing, any offer, proposal or request, directly or indirectly, of the type referenced in clause (a) or

(b) above or any request for disclosure or access as referenced in clause (c) above, the Company will immediately suspend any discussions with such offeror or Person with regard to such offers, proposals or requests and notify the Purchaser thereof, including information as to the identity of the offeror or Person making any such offer or proposal and the specific terms of such offer or proposal, as the case may be, and such other information related thereto as the Purchaser may reasonably request. Promptly following the Closing, the Company will notify each person with which the Company has entered into a nondisclosure agreement with respect to the evaluation of the sale of the Company that it is required to return or destroy (pursuant to the terms of such agreements) any materials or information provided to such parties that would be deemed confidential for purposes of the Confidentiality Agreement, and, beginning on the date hereof, neither the Company nor any of its Affiliates will waive affirmatively any right under any such agreement without the prior written consent of the Purchaser.

7.5 Confidentiality.

(a) Each party agrees not to issue any press release or make any other public announcement relating to this Agreement without the prior written approval of the other party, unless required by Law (in which case the disclosing party agrees to use reasonable efforts to advise the other party prior to making such disclosure), except as to comply with the obligations set forth in Sections 7.6, 7.13(a) or 7.13(b) of this Agreement.

(b) Each party agrees to continue to abide by that certain Mutual Nondisclosure Agreement dated as of April 19, 2010 (the “Confidentiality Agreement”), the terms of which are incorporated by reference in this Agreement and which terms will survive until the Closing, at which time the Confidentiality Agreement will terminate; provided, however, that if this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement will continue in full force and effect. Except as contemplated by Section 7.5(a), the existence of this Agreement and the other Ancillary Agreements and the terms hereof and thereof (including the exhibits and schedules appended hereto) will be deemed to be confidential for purposes of the Confidentiality Agreement.

7.6 Company Stockholder Materials. Promptly following the Agreement Date, the Company will deliver an information statement, a form of written consent of the stockholders of the Company to approve the adoption of this Agreement, and all information that may be required to be given to the Stockholders pursuant to the DGCL in connection with the Merger, including, to the extent applicable, adequate notice of the Merger and information concerning dissenters’ rights under the DGCL (the “Stockholder Materials”) to all Stockholders entitled to receive such under the DGCL. Prior to the delivery of the Stockholder Materials, the Company will have given the Purchaser and its counsel a reasonable opportunity (but in no event fewer than three Business Days) to review and comment on reasonably final drafts of the Stockholder Materials. The Stockholder Materials will specify the address to which any notices concerning dissenters’ rights must be sent and will request that a copy of such notice be sent to the Purchaser at an address specified by the Purchaser. At the time it is sent and at all times subsequent thereto until the receipt of the approval of the Stockholders of the adoption of this Agreement, the Stockholder Materials will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, not misleading; provided, however, that the Company will not be responsible for information about the Purchaser which is accurately stated from or incorporated by reference to information which the Purchaser has publicly released or otherwise provided by the Purchaser or its representatives (including counsel), in writing, for use in the Stockholder Materials. If, at any time prior to the receipt of the approval of the Stockholders of the adoption of this Agreement, any event or information should be discovered by the Company which should be set forth in an amendment or supplement to the Stockholder Materials, then the Company will promptly inform the Purchaser of such occurrence, and the Company will deliver to the Stockholders such amendment or supplement. The Stockholder Materials will include

the recommendation of the board of directors of the Company in favor of this Agreement and the Merger and the conclusion of the board of directors of the Company that the terms and conditions of the Merger are in the best interests of the Stockholders.

7.7 Meeting or Consent of Stockholders. Without limiting the provisions of Section 7.6, the Company will take all action necessary in accordance with the DGCL and its certificate of incorporation and bylaws to deliver a solicitation for the written consent of the Stockholders to approve this Agreement and the Merger. The Company will use commercially reasonable efforts to obtain promptly from all of the Stockholders written consents in favor of the Merger.

7.8 Satisfaction of Conditions Precedent. Each of the parties hereto agrees to use its commercially reasonable efforts, and to cooperate with each other party hereto, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, appropriate or desirable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated hereby, including the satisfaction of the respective conditions set forth in Article 6.

7.9 Company Plans. Prior to the Effective Time, if requested by the Purchaser, the Company will take all actions necessary to terminate any and all Company employee benefit plans that are subject to Section 401(k) of the Code, effective not later than immediately prior to the Effective Time.

7.10 Employment Arrangements.

(a) The Company and Purchaser will cooperate in identifying those employees or independent contractors of the Company that Purchaser may wish to employ or engage upon the consummation of the Merger (“Acquired Employees”). Those employees or independent contractors of the Company who are not Acquired Employees, if any, shall be terminated by the Company prior to the Closing Date and in accordance with the Law. For the sake of clarity, the Company shall be responsible for Liabilities arising in connection with the termination of each such employee or independent contractor, including any termination notice, severance and similar payments.

(b) Immediately following the Effective Time, and subject to the terms of any employment agreements that may be entered into between the Purchaser and any Acquired Employee effective as of the Effective Time, the employees who are Acquired Employees and are working for the Company in the United States will remain at-will employees of the Company, and the employees who are Acquired Employees and are working for the Company outside the United States will continue to have the terms of employment with the Company that were in place immediately prior to the Effective Time. For the sake of clarity, the Purchaser shall have no obligation to continue to employ or engage the Acquired Employees following the Effective Date.

(c) Each Acquired Employee that becomes an employee of the Purchaser upon the Effective Time (or remains an employee of the Surviving Corporation or any Subsidiary of the Purchaser or the Surviving Corporation) shall receive service credit for prior service with the Company under the employee benefit plans of the Purchaser and its Subsidiaries, subject to applicable Law. From and after the Effective Time, the Purchaser shall take all actions as are necessary to allow Acquired Employees to participate in the benefit programs of the Purchaser and its Subsidiaries to the same extent as similarly situated employees of the Purchaser or its Subsidiaries as soon as practicable after the Effective Time subject to applicable Law. To the extent permitted under the applicable benefit program of the Purchaser or its Subsidiary, as applicable, the Purchaser shall cause all limitations as to preexisting conditions, exclusions (or actively at work or similar limitations), evidence of insurability requirements and waiting periods to be waived with respect to participation and coverage requirements applicable to the Acquired

Employees under any medical, dental and vision plans that such employees may be eligible to participate in after the Effective Time. To the extent permitted under the applicable benefit programs of the Purchaser or its Subsidiaries, as applicable, the Purchaser shall also provide Acquired Employees and their eligible dependents with credit for any co-payments, deductibles and offsets (or similar payments) made under the Company employee benefit plans and arrangements for the year in which the Closing occurs for the purposes of satisfying any applicable deductible, out-of-pocket, or similar requirements under any Purchaser benefit program in the year in which the Closing occurs.

7.11 Further Actions. Subject to the other express provisions of this Agreement, upon the request of any party to this Agreement, the other parties will (a) execute and deliver, at their own expense, any other documents and (b) take any other actions as the requesting party may reasonably require to more effectively carry out the intent of this Agreement and the transactions contemplated by this Agreement.

7.12 Section 280G Matters. The Company will deliver to the Purchaser reasonably detailed information setting forth all persons who may be “disqualified individuals” (as defined in Section 280G(c) of the Code) and who may be receiving payments or benefits in connection with the transactions contemplated by this Agreement (under this Agreement or any other Contract, plan or arrangement or otherwise, including severance payments, and acceleration of vesting or benefits under options or restricted stock), and any family or other relationships among the stockholders of the Company that would result in attribution of ownership under Section 318 of the Code for the purposes set forth above. Prior to the Closing Date, the Company shall submit to a stockholder vote the right of any “disqualified individual” to receive any and all payments (or other benefits) contingent on the consummation of the transactions contemplated by this Agreement (within the meaning of Section 280G(b)(2)(A)(i) of the Code) to the extent necessary so that no payment received by such “disqualified individual” would be a “parachute payment” under Section 280G(b) of the Code (determined without regard to Section 280G(b)(4) of the Code), in a manner that satisfies the stockholder approval requirements under Section 280G(b)(5)(B) of the Code and regulations promulgated thereunder. In addition, before the vote is submitted to stockholders, the Company shall provide disclosure to the stockholders of the Company that hold voting shares of the capital stock of the Company of all material facts concerning all payments that, but for such vote, could be deemed “parachute payments” to a “disqualified individual” under Section 280G of the Code in a manner that satisfies Section 280G(b)(5)(B)(ii) of the Code and regulations promulgated thereunder (the “280G Approval”). Prior to the delivery to the stockholders of the Company of the documents to be delivered to such stockholders in connection with the 280G Approval, the Company will have provided the Purchaser and its counsel a reasonable opportunity, but in any event no fewer than five Business Days, to review and comment on final drafts of all such documents.

7.13 Securities Matters.

(a) The parties shall use all best efforts to cause the issuance of the Merger Consideration as contemplated under this Agreement to be effected in a private placement pursuant to Rule 506 of Regulation D, promulgated under the Securities Act (“Rule 506”). Without limiting the generality of the foregoing, (i) the parties shall cooperate to solicit from each Stockholder who is entitled to receive any portion of the Merger Consideration such information as is required to determine its status as an accredited or sophisticated investor (alone or together with a purchaser representative) under Rule 506, including a completed and executed representation letter, in the form attached hereto as Exhibit E from each such Stockholder, and (ii) the Company and the Purchaser shall provide all information required for the preparation and dissemination to the Stockholders entitled to vote on the Merger Agreement, the Merger and related transactions, an information memorandum containing the information required by Rule 506.

(b) In the event that the parties determine that the issuance of the Merger Consideration as contemplated under this Agreement is unlikely to comply with Rule 506, then Purchaser and the Company shall prepare, and Purchaser shall apply for a permit, in each case as promptly as practicable, from the California Department of Corporations (the "Commissioner") pursuant to Section 25121 of the California Corporate Securities Laws of 1968, as amended, and applicable rules thereunder, in order to obtain a fairness hearing (a "Fairness Hearing") and exemption for the issuance of the Merger Consideration under this Agreement pursuant to Section 3(a)(10) of the Securities Act; provided, however, that the Purchaser shall not be required to modify any of the terms of the Merger in any material manner in order to cause the California Secretary of State to approve the fairness of the terms and conditions of the Merger. The Company and Purchaser will notify each other promptly of the receipt of any comments from the Commissioner or its staff and of any request by the Commissioner or its staff or any other government officials for amendments or supplements to any of the documents filed therewith or any other filing or for additional information and will supply each other with copies of all correspondence between such party or any of its representatives, on the one hand, and the Commissioner, or its staff or any other government officials, on the other hand, with respect to the filing. Whenever any event occurs that is required to be set forth in an amendment or supplement to the Information Statement or any other filing, the parties shall promptly inform each other of such occurrence and cooperate in filing with the Commissioner or its staff or any other government officials, and/or mailing to the Stockholders, such amendment or supplement. As soon as permitted by the Commissioner, the Company shall mail the related information statement or other disclosure document (collectively, the "Information Statement") to all Stockholders entitled to receive such notice under the California Corporations Code. The Information Statement shall include the unanimous recommendation of the Board of Directors of the Company to the Stockholders to vote in favor of the approval and adoption of the Merger and this Agreement. None of the information supplied by any party in connection with the Fairness Hearing process or the Information Statement or any other document prepared to comply with federal or state securities laws shall contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements contained therein not misleading.

(c) In the event that the parties determine that the issuance of the Merger Consideration under this Agreement cannot be made pursuant to an exemption from the registration and prospectus delivery requirements of Section 5 of the Securities Act either under Regulation D or pursuant to a Fairness Hearing under Section 3(a)(10) or under any other exemption therefrom, then the Purchaser and the Company shall cooperate in good faith to amend the structure of the transaction contemplated by this Agreement and the terms of this Agreement that would allow the issuance of the maximum number of shares of Purchaser Common Stock otherwise includable as Merger Consideration under this Agreement to the Company Common Stockholders in compliance with Applicable Securities Laws. Notwithstanding any other provision of this Agreement, any such amendment shall not cause the Merger to lose its treatment as a tax-free reorganization as contemplated by Section 3.6 with respect to any non-cash Merger Consideration issuable pursuant to this Agreement as so amended.

7.14 Formation of Merger Sub. Within 30 days after the Agreement Date, the Purchaser shall take all actions necessary to cause the due formation of a new Delaware corporation (the "Merger Sub") in accordance with the DGCL, which shall be its wholly-owned subsidiary, and cause the Merger Sub to obtain all corporate approvals necessary for its execution, delivery and performance of its obligations under this Agreement and any Ancillary Agreement to which it is a party, and promptly after formation shall further cause the Merger Sub to execute and deliver to the Company a Joinder Agreement in the form attached hereto as Exhibit I to cause the Merger Sub to become a party to this Agreement. Prior to the filing of the Certificate of Incorporation of Merger Sub and the adoption of the Bylaws of Merger Sub, Purchaser will have given the Company and its counsel a reasonable opportunity to review and comment on reasonably final drafts of such documents.

7.15 Republic of China Regulatory Approval. Each of the Purchaser and the Company shall apply for or otherwise seek, and use its reasonable best efforts to obtain, all consents and approvals required to be obtained by it from a Governmental Authority for the consummation of the Merger. Without limiting the generality or effect of the foregoing, each of the Purchaser and the Company shall promptly take all actions and make all filings necessary to obtain any authorizations, permits or clearances from the IC or otherwise under the ROC Foreign Investment Act, which filings shall be made within 10 Business Days after the exercise by the Purchaser of the Purchase Option, or the exercise by the Company of the Company Option, as applicable, and the parties shall (i) cooperate and coordinate with each other in the making of such filings, (ii) supply each other with any information that may be required by the other in order for such filings to be made, and (iii) supply any additional information that reasonably may be required or requested by the IC in connection with such filing. The Purchaser agrees to (i) keep the Company reasonably apprised with respect to any material oral communications with any Governmental Authority regarding the transactions contemplated by this Agreement, (ii) subject to necessary assistance and cooperation being provided by the Stockholders who are entitled to receive Merger Consideration hereunder, cooperate in the filing of any analyses, presentations, memoranda, briefs, arguments, opinions or other written communications explaining or defending the transactions contemplated by this Agreement, articulating any regulatory or competitive argument and/or responding to requests or objections made by any Governmental Authority, (iii) provide the Company with a reasonable advance opportunity to provide input on, and consider in good faith the views of the Purchaser with respect to, all written material communications with a Governmental Authority regarding the transactions contemplated by this Agreement and (iv) provide the Company (or counsel to the Company, as appropriate) with copies of all material written communications from any Governmental Authority relating to the transactions contemplated by this Agreement. If and to the extent necessary to obtain any necessary regulatory clearance of the transactions contemplated by this Agreement, the Purchaser (and its respective Affiliates, if applicable), on the one hand, and the Company (and its Affiliates, if applicable), on the other hand, shall contest, defend and appeal any Proceedings brought by a Governmental Authority, whether judicial or administrative, challenging this Agreement or the consummation of any of the transactions contemplated by this Agreement.

ARTICLE 8
POST-CLOSING COVENANTS

8.1 D&O Indemnification.

(a) The Purchaser will, and will cause the Surviving Corporation to, fulfill, perform and honor in all respects, and will not take any action to alter or impair, any indemnification obligations of the Company to its current and former directors and officers (the “Company Indemnified Persons”) or similar exculpatory provisions eliminating personal liability of directors for monetary damages and providing for advancement of expenses existing in the Company’s certificate of incorporation, bylaws, existing indemnification agreements between the Company and its directors and officers, or any similar written agreement in effect as of the Effective Time, to the extent described on the Company Disclosure Schedule (collectively, the “Company Indemnification Provisions”), for a period of not fewer than six years after the Effective Time, except for any changes in such certificate of incorporation or bylaws which, in each instance, do not directly or indirectly adversely affect the application of such provisions to acts or omissions of such individuals prior to the Effective Time or materially alter or impair the rights of such individuals thereunder. Any claims for indemnification made under this Section 8.1(a) on or prior to the sixth anniversary of the Effective Time shall survive such anniversary until the final resolution thereof.

(b) Notwithstanding anything herein to the contrary, the Company may maintain its existing directors’ and officers’ liability insurance covering the Company Indemnified Persons for claims

arising out of acts or omissions occurring at or prior to the Effective Time and may prior to the Closing acquire "tail" coverage, which (i) has an effective term of up to six years from the Effective Time, (ii) covers those persons who are covered by the Company's directors' and officers' insurance policy in effect as of the Effective Time and only for actions and omissions occurring on or prior to the Effective Time, and (iii) is expected to contain terms and conditions (including, without limitation, coverage amounts) that are no less advantageous, when taken as a whole, to those applicable to the directors and officers of the Company as of immediately prior to the Effective Time, provided that the premium for such "tail" coverage shall not exceed \$75,000 in the aggregate for the entire "tail period." If the Company elects to acquire such "tail" coverage it shall pay the premiums for the full term of the "tail period" and neither the Purchaser nor the Surviving Corporation shall seek to terminate such coverage during the term of the "tail" policy as acquired by the Company.

(c) Notwithstanding anything to the contrary in this Agreement, the provisions of this Section 8.1 will survive the consummation of the Merger, shall be binding on all successors and assigns of the Surviving Corporation and the Purchaser, and are intended to be for the benefit of, and will be enforceable by, each present and former director and officer of the Company and his or her heirs and representatives. Following the Effective Time, the obligations of the Purchaser and the Surviving Corporation under this Section 8.1 will not be terminated or modified in such a manner as to adversely affect the rights of any present and former directors and officers of the Company under this Section 8.1 without the consent of such affected present and former directors and officers of the Company.

ARTICLE 9 TERMINATION

9.1 Termination Events. This Agreement may, by written notice given before or at the Closing, be terminated:

(a) by mutual consent of the Purchaser and the Company;

(b) by either the Purchaser or the Company if any Governmental Authority of competent jurisdiction has issued a nonappealable final Judgment or taken any other nonappealable final action, in each case having the effect of permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement;

(c) by either party, upon the expiration, without exercise, of the Purchase Option on the Purchase Option Expiration Date; or

(d) by either party if the Closing has not occurred on or before January 31, 2012 (the "End Date"); provided, however, that if the Merger shall not have been consummated by the End Date, but on such date, all of the conditions to Closing set forth in Article 6, other than the condition set forth in Section 6.1(b), have been satisfied or waived in writing, then at the written election of either the Company or the Purchaser, the End Date shall be extended a maximum of two times for up to 45 days each time (such date, to the maximum extent it may be extended, the "Extended End Date"); and provided further, that the right to terminate this Agreement pursuant to this Section 9.1(d) will not be available to any party whose breach of a representation, warranty or covenant made under this Agreement results in the failure of any condition set forth in Article 6 to be fulfilled or satisfied on or before the End Date or the Extended End Date, as the case may be.

9.2 Effect of Termination. Each party's rights of termination under Section 9.1 are in addition to any other rights it may have under this Agreement or otherwise, and the exercise of such rights of termination is not an election of remedies. If this Agreement is terminated pursuant to Section 9.1, all

obligations of the parties under this Agreement terminate and there shall be no Liability on the part of any of the parties, except that (a) the provisions of Section 7.5(b), this Section 9.2, Section 9.3 and Article 10 will remain in full force and effect and survive any termination of this Agreement, (b) nothing herein shall relieve any party from liability for any willful or intentional breach of any representation, warranty or covenant of such party contained herein and (c) if this Agreement is terminated by a party because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired. If this Agreement is terminated pursuant to Section 9.1(c) or 9.1(d), the provisions of Section 1.3, this Section 9.2 and Article 10 and all provisions of this Agreement that are related to the consummation of the issuance of the Merger Consideration by the Purchaser to the Company upon exercise of the Company Option will remain in full force and effect and survive any termination of this Agreement.

9.3 Disposition of Documents. In the event of the termination of this Agreement by either the Company or the Purchaser as provided in Section 9.1 hereof, each party, if so requested by the other party, will (a) return promptly every document (other than documents publicly available and other than one copy thereof to be retained by outside counsel for such party) furnished to it by the other party (or any Subsidiary, division, associate or affiliate of such other party) in connection with the transactions contemplated hereby, whether so obtained before or after the execution of this Agreement, and any copies thereof which may have been made, and will cause its representatives and others to whom such documents were furnished promptly to return such documents and any copies thereof any of them may have made, or (b) destroy such documents and cause its representatives and such other representatives to destroy such documents, and so certify such destruction to the other party.

ARTICLE 10 GENERAL PROVISIONS

10.1 Survival. All representations, warranties, covenants and obligations of the Company, the Purchaser and the Merger Sub contained in this Agreement will expire upon the Closing and will thereafter be of no further force or effect. The foregoing notwithstanding, any covenant or obligation contained herein that expressly contemplates performance of such covenant or obligation following the Closing will continue through the period of such contemplated performance.

10.2 Stockholder Representative.

(a) Upon the adoption of this Agreement and the approval of the Merger and the transactions contemplated hereby by the Stockholders and without further act of any Stockholder, each Stockholder designates and appoints the Stockholder Representative as such Stockholder's agent and attorney-in-fact with full power and authority to act for and on behalf of each Stockholder from and after the Effective Time: (i) to give and receive notices and communications, (ii) to accept service of process on behalf of the Stockholder pursuant to Section 10.12, and (iii) to take all actions that are either

(x) necessary or appropriate in the judgment of the Stockholder Representative for the accomplishment of the foregoing or (y) specifically mandated by the terms of this Agreement. Notices or communications to or from the Stockholder Representative constitute notice to or from each of the Stockholders for all purposes under this Agreement. The rights of the Stockholders to receive disbursements under this Agreement will be conditioned upon and subject to the right of the Stockholder Representative to take any and all actions and make any and all decisions required or permitted to be taken or made by the Stockholder Representative under this Agreement or the Exchange Agent Agreement.

(b) The Stockholder Representative may delegate its authority as Stockholder Representative to any one of the Stockholders for a fixed or indeterminate period of time upon not fewer

than 10 Business Days' prior written notice to the Purchaser in accordance with Section 10.3. In the event of the dissolution or incapacity of the Stockholder Representative, a successor Stockholder Representative will be elected promptly by those Stockholders who have received, in the aggregate, a majority of the shares of Purchaser Common Stock constituting the Merger Consideration and the Stockholders will so notify the Purchaser. Each successor Stockholder Representative has all of the power, authority, rights and privileges conferred by this Agreement upon the original Stockholder Representative, and the term "Stockholder Representative" as used in this Agreement includes any successor Stockholder Representative.

(c) A decision, act, consent or instruction of the Stockholder Representative constitutes a decision of all Stockholders and is final, binding and conclusive upon the Stockholders, and the Purchaser and Exchange Agent may rely upon any such decision, act, consent or instruction of the Stockholder Representative as being the decision, act, consent or instruction of the Stockholders. The Purchaser and Exchange Agent are hereby relieved from any Liability to any Person for any acts done or omissions by the Purchaser or Exchange Agent, as applicable, in accordance with such decision, act, consent or instruction of the Stockholder Representative. Without limiting the generality of the foregoing, the Purchaser and Exchange Agent are entitled to rely, without inquiry, upon any document delivered by the Stockholder Representative as being genuine and correct and having been duly signed or sent by the Stockholder Representative.

(d) The Stockholder Representative will have no Liability to any Person for any act done or omitted under this Agreement as the Stockholder Representative absent intentional fraud. The Stockholders will severally indemnify and hold harmless the Stockholder Representative from and against any losses the Stockholder Representative may suffer as a result of any such action or omission. All of the immunities and powers granted to the Stockholder Representative under this Agreement will survive the Closing and/or any termination of this Agreement and the Exchange Agent Agreement.

(e) The Stockholder Representative will receive no compensation for services as the Stockholder Representative. This appointment and grant of power and authority by the Stockholders to the Stockholder Representative pursuant to this Section 10.2 is coupled with an interest, is in consideration of the mutual covenants made in this Agreement, is irrevocable and may not be terminated by the act of any Stockholder or by operation of Law, whether upon the death or incapacity of any Stockholder, or by the occurrence of any other event.

(f) From and after the Effective Time, the Purchaser will cause the Surviving Corporation to provide the Stockholder Representative with reasonable access to information about the Surviving Corporation and the reasonable assistance of the officers and employees of Purchaser and the Surviving Corporation for purposes of performing its duties and exercising its rights under this Agreement.

10.3 Notices. All notices and other communications under this Agreement must be in writing and are deemed duly delivered when (a) delivered if delivered personally or by nationally recognized overnight courier service (costs prepaid), (b) sent by facsimile with confirmation of transmission by the transmitting equipment (or, the first Business Day following such transmission if the date of transmission is not a Business Day) or (c) received or rejected by the addressee within five Business Days of dispatch, if sent by certified mail, return receipt requested; in each case to the following addresses or facsimile numbers and marked to the attention of the individual (by name or title) designated below (or to such other address, facsimile number or individual as a party may designate by notice to the other parties):

If to the Purchaser or the Merger Sub: Himax Display, Inc.
No.26 Zih Lian Road
Tree Valley Park
Sihshih Township
Tainan County 74148
Republic of China Attention:
Facsimile:

With copies to: Baker & McKenzie
15/F, 168 Tun Hwa North Road
Taipei 105, Taiwan,
Republic of China
Attention:
Facsimile:

Baker & McKenzie LLP
660 Hansen Way
Palo Alto, CA 94034
Attention: Jenny C. Yeh
Facsimile: +1.650.856.9299

If to the Company Spatial Photonics, Inc.
930 Hamlin Ct.
Sunnyvale, CA 94089
Attention: Wald Siskens, President
Facsimile:

With a copy to: Fenwick & West LLP
801 California Street
Mountain View, CA 94041
Attention: Sayre Stevick
Mark Porter
Facsimile: 650-938-5200

10.4 Amendment. This Agreement may not be amended, supplemented or otherwise modified except in a written document signed by each party to be bound by the amendment and that identifies itself as an amendment to this Agreement. Any amendment of this Agreement entered into after the Effective Time signed by the Stockholder Representative is binding upon and effective against each Stockholder regardless of whether or not such Stockholder has in fact signed such amendment.

10.5 Waiver and Remedies. The parties may (a) extend the time for performance of any of the obligations or other acts of any other party to this Agreement, (b) waive any inaccuracies in the representations and warranties of any other party to this Agreement contained in this Agreement or in any certificate, instrument or document delivered pursuant to this Agreement or (c) waive compliance with any of the covenants, agreements or conditions for the benefit of such party contained in this Agreement. Any such extension or waiver by any party to this Agreement will be valid only if set forth in a written

document signed on behalf of the party or parties against whom the waiver or extension is to be effective. No extension or waiver will apply to any time for performance, inaccuracy in any representation or warranty, or noncompliance with any covenant, agreement or condition, as the case may be, other than that which is specified in the written extension or waiver. No failure or delay by any party in exercising any right or remedy under this Agreement or any of the documents delivered pursuant to this Agreement, and no course of dealing between the parties, operates as a waiver of such right or remedy, and no single or partial exercise of any such right or remedy precludes any other or further exercise of such right or remedy or the exercise of any other right or remedy. Any enumeration of a party's rights and remedies in this Agreement is not intended to be exclusive, and a party's rights and remedies are intended to be cumulative to the extent permitted by law and include any rights and remedies authorized in law or in equity. After the Effective Time, any such extension or waiver signed by the Stockholder Representative is binding upon and effective against each Stockholder regardless of whether or not such Stockholder has in fact signed the extension or waiver.

10.6 Entire Agreement. This Agreement (including the Ancillary Agreements and the schedules and exhibits hereto and the documents and instruments referred to in this Agreement that are to be delivered at the Closing) constitutes the entire agreement among the parties and supersedes any prior understandings, agreements or representations by or among the parties, or any of them, written or oral, with respect to the subject matter of this Agreement, including that certain Memorandum of Understanding dated as of August 23, 2010 between the Purchaser and the Company.

10.7 Assignment and Successors. This Agreement binds and benefits the parties and their respective heirs, executors, administrators, successors and assigns, except that the Company may not assign any rights under this Agreement without the prior written consent of the Purchaser. Except as provided in Section 10.2, no party may delegate any performance of its obligations under this Agreement. Except as set forth in Section 8.1 hereof, nothing expressed or referred to in this Agreement will be construed to give any third party or other Person, other than the parties to this Agreement (including the Stockholders), any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement except such rights as may inure to a successor or permitted assignee under this Section.

10.8 Severability. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement are not affected or impaired in any way and the parties agree to negotiate in good faith to replace such invalid, illegal and unenforceable provision with a valid, legal and enforceable provision that achieves, to the greatest lawful extent under this Agreement, the economic, business and other purposes of such invalid, illegal or unenforceable provision.

10.9 Exhibits and Schedules. The exhibits and schedules to this Agreement are incorporated herein by reference and made a part of this Agreement. The Company Disclosure Schedule is arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs of Article 4. The disclosure in any section or paragraph of the Company Disclosure Schedule qualifies other sections and paragraphs in this Agreement to the extent the relevance of such information is reasonably apparent on the face of such sections and will be deemed to modify the representations and warranties in Article 4 whether or not such representations and warranties refer to such Company Disclosure Schedule. The inclusion of any specific item in the Company Disclosure Schedule is not intended to imply that such items so included are or are not required to be disclosed.

10.10 Interpretation. The language used in this Agreement is the language chosen by the parties to express their mutual intent, and no provision of this Agreement will be interpreted for or against any party because that party or its attorney drafted the provision. All dollar amounts and prices are dollar amounts and prices in the currency of the United States of America.

10.11 Governing Law. The internal laws of the State of Delaware (without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of laws of any other jurisdiction) govern all matters arising out of or relating to this Agreement and its exhibits and schedules and all of the transactions it contemplates, including its validity, interpretation, construction, performance and enforcement and any disputes or controversies arising therefrom.

10.12 Disputes. Any dispute, controversy or claim, whether based on contract, tort, statute, fraud, misrepresentation or any other legal theory arising out of or relating to this Agreement or the Ancillary Agreements or any right or obligation under this Agreement or the Ancillary Agreements, including as to this Agreement's or the Ancillary Agreements' existence, enforceability, validity, interpretation, performance, indemnification, breach or damages, including claims in tort, whether arising before or after the termination of this Agreement or the Ancillary Agreements, will be settled exclusively by an alternative dispute resolution process in accordance with the JAMS Comprehensive Arbitration Rules and Procedures then in effect as modified by the following provisions of this Agreement:

(a) To the extent that any misunderstanding or dispute cannot be resolved agreeably in a friendly manner, either the Purchaser or the Company (or after the Effective Time, the Stockholder Representative) may demand arbitration of the matter, and in such event the matter will be settled by binding arbitration. The arbitration will be conducted by one arbitrator mutually selected by the Purchaser and the Company; provided that if the Purchaser and the Company (or after the Effective Time, the Stockholder Representative on behalf of the Stockholders) are unable to reach agreement with respect to the arbitrator, the arbitrator will be chosen in accordance with the JAMS appointment rules.

(b) Any such arbitration will be conducted under the Commercial Arbitration Rules then in effect of the Judicial Arbitration and Mediation Services. The arbitration proceedings will be scheduled to begin no more than 30 days after the filing of the request for arbitration of such dispute and to conclude no later than 120 days after the filing of such request. Each party will bear its own fees and expenses relating to the arbitration (including reasonable attorneys' fees and costs of investigation).

(c) The Purchaser and the Company (or after the Effective Time, the Stockholder Representative on behalf of the Stockholders) will be permitted to obtain and take discovery, including requests for production, interrogatories, requests for admissions and depositions, as provided by the Federal Rules of Civil Procedure; provided, however, that the arbitrator(s) will be permitted, in his/her discretion, to set parameters on the timing and/or completion of this discovery and to order additional pre-hearing exchange of information, including exchange of summaries of testimony or exchange of statements of positions. The arbitration proceedings and all testimony, filings, documents and information relating to or presented during the arbitration proceedings will be disclosed exclusively for the purpose of facilitating the arbitration process and for no other purpose.

(d) The arbitrator will only be authorized to, and will only have the consent of the parties to, interpret and apply the terms and provisions of this Agreement in accordance with the laws of the State of Delaware. The arbitrator will not be authorized to, and will not, order any remedy not permitted by this Agreement and will not change any term or provision of this Agreement, deprive either party of any remedy expressly provided hereunder or provide any right or remedy that has not been expressly provided hereunder. In the event that the arbitrator exceeds his or her authority under this Agreement and violates this provision, either the Purchaser or the Company (or after the Effective Time the Stockholder Representative on behalf of the Stockholders) will be entitled to petition a court of

competent jurisdiction to vacate the arbitration award on the grounds that the arbitrator exceeded his or her authority.

(e) The decision of the arbitrator as to the dispute will be final, binding, and conclusive upon the parties to this Agreement and will not be appealable. Such decision must be in English, written and supported by written findings of fact and conclusions which set forth the award, judgment, decree or order awarded by the arbitrator.

(f) Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction.

10.13 Injunctive Relief. Each of the parties hereto acknowledges and agrees that, in the event of any breach of, or any failure to perform, any specific provision of this Agreement, the non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (x) will be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to seek specific performance of any specific provision of this Agreement or to obtain injunctive relief to prevent breaches of any specific provision of this Agreement, (y) will waive, in any action for specific performance or injunctive relief, the defense of the adequacy of a remedy at law, and (z) will waive any requirement for the securing or posting of any bond in connection with the obtaining of any such specific performance or injunctive relief.

10.14 Waiver of Jury Trial. EACH OF THE PARTIES HERETO EXPRESSLY WAIVES AND FOREGOES ANY RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING SEEKING ENFORCEMENT OF SUCH PARTY'S RIGHTS UNDER THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY OR ENTERED INTO IN CONNECTION HEREWITH OR THEREWITH OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

10.15 Limitation of Liabilities. IN NO EVENT WILL ANY PARTY WHICH IS A SIGNATORY TO THIS AGREEMENT BE LIABLE TO ANY PARTY OR OTHER PERSON FOR ANY LOST PROFITS, OTHER CONSEQUENTIAL, SPECIAL, INCIDENTAL, INDIRECT, COLLATERAL OR PUNITIVE DAMAGES OF ANY KIND, REGARDLESS OF WHETHER SUCH PARTY WILL BE ADVISED, WILL HAVE OTHER REASON TO KNOW, OR IN FACT WILL KNOW OF THE POSSIBILITY OF THE FOREGOING UNLESS, SOLELY WITH RESPECT TO CONSEQUENTIAL OR SPECIAL (TO THE EXTENT THAT SUCH DAMAGES ARE DEEMED TO BE CONSEQUENTIAL), ANY SUCH DAMAGES ARE PART OF A JUDGMENT IN CONNECTION WITH A CLAIM OF A THIRD PERSON AGAINST AN INDEMNIFIED PARTY.

10.16 Counterparts. The parties may execute this Agreement in multiple counterparts, each of which constitutes an original as against the party that signed it, and all of which together constitute one agreement. This Agreement is effective upon delivery of one executed counterpart from each party to the other parties. The signatures of all parties need not appear on the same counterpart. The delivery of signed counterparts by facsimile or email transmission that includes a copy of the sending party's signature is as effective as signing and delivering the counterpart in person.

10.17 Expenses. Each party will bear its respective direct and indirect expenses incurred in connection with the preparation and negotiation of this Agreement and the consummation of the transactions contemplated by this Agreement, including all fees and expenses of its advisors and representatives.

10.18 Construction. Any reference in this Agreement to an “Article,” “Section,” “Exhibit” or “Schedule” refers to the corresponding Article, Section, Exhibit or Schedule of or to this Agreement, unless the context indicates otherwise. Any reference in this Agreement to “hereof” or “herein” refers to this Agreement as a whole and not to any specific Section, subsection, paragraph, exhibit or schedule. The table of contents and the headings of Articles and Sections are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. All words used in this Agreement should be construed to be of such gender or number as the circumstances require. The term “including” means “including without limitation” and is intended by way of example and not limitation. Any reference to a statute is deemed also to refer to any amendments or successor legislation, and all rules and regulations promulgated thereunder, as in effect at the relevant time. Any reference to a Contract or other document as of a given date means the Contract or other document as amended, supplemented and modified from time to time through such date.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and Plan of Merger as of the date first set forth above.

“Purchaser”

Himax Display, Inc.
a Republic of China corporation

By: /s/ Biing-Seng Wu
Name: Biing-Seng Wu
Title: Chairman of the Board of Directors

“Company”

Spatial Photonics, Inc.,
a Delaware corporation

By: /s/ Wald Siskens
Name: Wald Siskens
Title: President and Chief Executive Officer

“Stockholder Representative”

Wen Hsieh, solely for the purposes related to the
Stockholder Representative as set forth herein

By: /s/ Wen Hsieh

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

List of Exhibits

Exhibit A	Definitions
Exhibit B	Milestones; Determination of Milestones
Exhibit B-1	*
Exhibit C	Final Merger Consideration Allocation Schedule [Reserved]
Exhibit D	FIRPTA Certificate [Reserved]
Exhibit E	[Reserved]
Exhibit F	Form of Agreement to Exchange Shares
Exhibit G	Form of Cooperation Agreement
Exhibit H	Intellectual Property Agreement
Exhibit I	Form of Joinder Agreement [Reserved]

EXHIBIT A

Definitions

For the purposes of this Agreement:

“Affiliate” means, with respect to a specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the specified Person. For purposes of this definition, the term “control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning set forth in the introductory paragraph.

“Ancillary Agreements” means, collectively, the Exchange Agent Agreement, the Stockholders Agreement and the Intellectual Property Agreement.

“Acquisition Transaction” has the meaning set forth in Section 7.4.

“Business Day” means any day other than a Saturday, Sunday or any day on which banking institutions in (i) the State of California, USA or (ii) the Republic of China, are closed either under applicable Law or action of any Governmental Authority.

“Certificate” has the meaning set forth in Section 3.3(a)(iii).

“Closing” has the meaning set forth in Section 2.2.

“Closing Date” has the meaning set forth in Section 2.2.

“Code” means the Internal Revenue Code of 1986, as amended.

“Common Pro-Rata” has the meaning set forth in Section 3.1(a)(i).

“Common Stock Allocation” has the meaning set forth in Section 3.1(a)(ii).

“Company” has the meaning set forth in the introductory paragraph.

“Company Capital Stock” means all of the issued and outstanding shares of Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series D-1 Preferred Stock and Class M Stock.

“Company Common Shares” has the meaning set forth in Section 3.1(a)(iii).

“Company Disclosure Schedule” has the meaning set forth in the introductory paragraph in Article 4.

“Company Financial Statements” has the meaning set forth in Section 4.5.

“Company Interim Balance Sheet” has the meaning set forth in Section 4.5.

“Company Software” means any and all computer software and code, assemblers, applets, compilers, source code, object code, data (including image and sound data), design tools and user interfaces, in any form or format, however fixed, comprising or relating to or necessary to operate the Company’s family of products, including source code listings and documentation.

“Confidential Information” means any information, in whatever form or medium, concerning the business or affairs of the Company, other than information generally available or known publicly.

“Confidentiality Agreement” has the meaning set forth in Section 7.5(b).

“Contract” means any contract, agreement, lease, license, commitment, understanding, franchise, warranty, guaranty, mortgage, note, bond, option, warrant, right or other instrument or consensual obligation, whether written or oral.

“DGCL” has the meaning set forth in Section 2.1.

“Dissenting Shares” has the meaning set forth in Section 3.4.

“Effective Time” has the meaning set forth in Section 2.2(a).

“Encumbrance” means any charge, adverse title claim, mortgage, easement, right of way, community or other marital property interest, covenant, equitable interest, license, lease or other possessory interest, lien, option, pledge, security interest, preference, priority, right of first refusal, restriction (other than any restriction on transferability imposed by foreign, federal or state securities Laws) or other encumbrance of any kind or nature whatsoever (whether absolute or contingent).

“Exchange Agent” has the meaning set forth in Section 2.2(c)(i).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exchange Agent Agreement” has the meaning set forth in Section 2.2(c)(i).

“Exchange Fund” has the meaning set forth in Section 2.2(c)(ii).

“Final Merger Consideration Allocation Schedule” has the meaning set forth in Section 3.3(a)(i).

“Governmental Authority” means any (a) federal, state, local, municipal, foreign or other government, (b) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department or other entity and any court or other tribunal), (c) multinational organization or (d) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

“Governmental Authorization” means any approval, consent, ratification, waiver, license, permit, registration or other authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Law.

“Indebtedness” means, with respect to any Person, without duplication, the following: (a) all obligations of the Company for borrowed money; (b) all obligations of the Company evidenced by bonds, debentures, notes, derivatives or similar instruments; (c) all obligations of others for borrowed

money secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Encumbrance on property owned by the Company, whether or not the obligation secured thereby has been assumed; (d) all guarantees by the Company of obligations of others for borrowed money; and (e) all obligations, contingent or otherwise, of the Company as an account party in respect of letters of credit and letters of guaranty relating to obligations for borrowed money.

“Intellectual Property” has the meaning set forth in Section 4.10.

“IRS” means the Internal Revenue Service and, to the extent relevant, the Department of Treasury.

“Judgment” means any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Authority or arbitrator.

“Knowledge”: “To the Company’s Knowledge,” “to the Knowledge of the Company” or words of similar import regarding the knowledge of the Company means the actual knowledge of Waldemar Siskens and Hue Harguindeguy, after conducting a reasonably inquiry of other officers or senior managerial employees of the Company charged with primary operational responsibility for the fact or matter in question, and “known to the Purchaser” means the actual knowledge of Jordan Wu, HC Tsai and Annie Shih.

“Law” means any federal, state, local, municipal, foreign, international, multinational, or other constitution, law, statute, treaty, rule, regulation, ordinance, code, binding case law or principle of common law.

“Liability” includes liabilities, debts or other obligations of any nature, whether known or unknown, absolute, accrued, contingent, liquidated, unliquidated or otherwise, due or to become due or otherwise, .

“Material Adverse Change” means a change which would have a Material Adverse Effect. A violation, circumstance, change, effect or other matter is deemed to have a “Material Adverse Effect” on (a) the Purchaser, if such violation, circumstance, change, effect or other matter, either individually or in the aggregate with all other violations, circumstances, changes, effects and other matters, has, or is reasonably expected to have, a material adverse effect on the business, assets (including intangible assets), results of operations or financial condition of the Purchaser and its Subsidiaries, taken as a whole, or would impair, prevent or delay the Purchaser’s performance of its obligations under this Agreement or the ability of the Purchaser to consummate the transactions contemplated hereby, or (b) the Company, if such violation, circumstance, change, effect or other matter, either individually or in the aggregate with all other violations, circumstances, changes, effects and other matters, has, or is reasonably be expected to have, a material adverse effect on the condition (financial or otherwise) of the business, assets (including intangible assets) and liabilities, results of operations or financial performance of the Company; it being understood that none of the following, in and of themselves, either alone or in combination, will constitute a Material Adverse Effect: (i) any material adverse effect resulting from or caused by actions taken by the Company which the Purchaser has approved or requested in writing, or the taking by the Company of any action specifically required by the express terms of this Agreement, (ii) delays in customer orders, reductions in sales, disruptions in supplier, distributor, partner or similar relationships, in each case, that are primarily the result of the announcement or pendency of the Merger or the transactions contemplated by this Agreement, (iii) any material adverse effect resulting from or caused by changes in economic conditions generally or in the Company’s industry generally, (iv) any material adverse effect resulting from or caused by acts of war or terrorism, earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wild fires or other natural disasters, weather conditions and other

force majeure events, and (v) any material adverse effect resulting from or caused by changes in applicable Law or GAAP after the Agreement Date (other than, in the case of subclauses (iii), (iv) and (v), effects of any such changes that disproportionately affect the Company relative to other such industry or market participants).

“Merger” has the meaning set forth in Section 2.1.

“Merger Consideration” has the meaning set forth in Section 3.1(a)(vi).

“Merger Sub” has the meaning set forth in the introductory paragraph.

“Open Source Materials” means all software or other material that is distributed as “free software,” “open source software” or under a similar licensing or distribution model (including but not limited to the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License).

“Options” has the meaning set forth in Section 3.1(a)(viii).

“Outstanding Company Shares” has the meaning set forth in Section 3.1(a)(ix).

“Outstanding Company Series A Shares” has the meaning set forth in Section 3.1(a)(x).

“Outstanding Company Series B Shares” has the meaning set forth in Section 3.1(a)(xi).

“Outstanding Company Series C Shares” has the meaning set forth in Section 3.1(a)(xii).

“Outstanding Company Series D Shares” has the meaning set forth in Section 3.1(a)(xiii).

“Permitted Encumbrances” means (a) statutory liens for Taxes that are not yet due and payable, (b) statutory liens to secure obligations to landlords, lessors or renters under leases or rental agreements, (c) deposits or pledges made in connection with, or to secure payment of, workers’ compensation, unemployment insurance or similar programs mandated by Law, (d) statutory liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens, (e) any minor imperfection of title or similar liens, charges or encumbrances which individually or in the aggregate with other such liens, charges and encumbrances does not impair the value of the property subject to such lien, charge or encumbrance or the use of such property in the conduct of the Company’s business, and (f) non-exclusive software licenses entered into in the ordinary course of the Company’s business.

“Person” means an individual or an entity, including a corporation, limited liability company, general or limited partnership, trust, association or other business or investment entity, or any Governmental Authority.

“Proceeding” means any action, arbitration, audit, examination, investigation, hearing, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, and whether public or private) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Authority or arbitrator.

“Purchaser” has the meaning set forth in the introductory paragraph.

“Purchaser Articles” means the articles of incorporation of the Purchaser, as amended to date.

“Purchaser Common Stock” means the common stock of the Purchaser.

“Purchaser Disclosure Schedule” has the meaning set forth in the introductory paragraph in Article 5.

“Purchaser Stock Price” has the meaning set forth in Section 3.1(a)(xiv). “Purchaser's Balance Sheet” has the meaning set forth in Section 5.4. “Securities Act” means the Securities Act of 1933, as amended.

“Series A Allocation” has the meaning set forth in Section 3.1(a)(xv).

“Series A Preferred Stock” has the meaning set forth in Section 4.4.

“Series A Pro-Rata” has the meaning set forth in Section 3.1(a)(xvi).

“Series B Allocation” has the meaning set forth in Section 3.1(a)(xvii).

“Series B Preferred Stock” has the meaning set forth in Section 4.4.

“Series B Pro-Rata” has the meaning set forth in Section 3.1(a)(xviii).

“Series C Allocation” has the meaning set forth in Section 3.1(a)(xix).

“Series C Preferred Stock” has the meaning set forth in Section 4.4.

“Series C Pro-Rata” has the meaning set forth in Section 3.1(a)(xx).

“Series D Allocation” has the meaning set forth in Section 3.1(a)(xxi).

“Series D Preferred Stock” has the meaning set forth in Section 4.4.

“Series D Pro-Rata” has the meaning set forth in Section 3.1(a)(xxii).

“Series D-1 Preferred Stock” has the meaning set forth in Section 4.4.

“Stockholder” means any holder of Company Capital Stock other than the Purchaser.

“Stockholder Materials” has the meaning set forth in Section 7.6.

“Stockholders Agreement” means that certain Stockholders Agreement dated of even date herewith among the Purchaser, Himax Technologies, Inc., the parent company of the Purchaser, and certain Stockholders.

“Stockholder Representative” has the meaning set forth in the introductory paragraph.

“Subsidiary” means, with respect to a specified Person, any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other

Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the specified Person or one or more of its Subsidiaries.

“Surviving Corporation” has the meaning set forth in Section 2.1.

“Tax” means (a) any federal, state, local, foreign and other tax, charge, fee, duty (including customs duty), levy or assessment, including any income, gross receipts, net proceeds, alternative or add-on minimum, corporation, ad valorem, turnover, real and personal property (tangible and intangible), sales, use, franchise, excise, value added, stamp, leasing, lease, user, transfer, fuel, excess profits, profits, occupational, premium, interest equalization, windfall profits, severance, license, registration, payroll, environmental (including taxes under Section 59A of the Code), capital stock, capital duty, disability, estimated, gains, wealth, welfare, employee's income withholding, other withholding, unemployment and social security or other tax of whatever kind (including any fee, assessment and other charges in the nature of or in lieu of any tax) that is imposed by any Governmental Authority, (b) any interest, fines, penalties or additions resulting from, attributable to, or incurred in connection with any items described in this paragraph or any related contest or dispute and (c) any items described in this paragraph that are attributable to another Person but that the Company is liable to pay by Law, by Contract or otherwise, whether or not disputed.

“Tax Return” means any report, return, declaration, claim for refund, or information return or statement related to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Transmittal Documentation” has the meaning set forth in Section 3.3(a)(iii).

“Transmittal Letter” has the meaning set forth in Section 3.3(a)(ii).

“U.S.GAAP” means generally accepted accounting principles for financial reporting in the United States, as in effect as of the date of this Agreement.

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THIS INCLUDES OMISSION OF A TOTAL OF 53 PAGES WITH RESPECT TO THE DOCUMENTS MARKED WITH †.**

Exhibit B

Calculation of Merger Consideration

The “the percentage of Purchaser Fully Diluted Capital Stock” for the purposes of the definition of “Merger Consideration” under the Agreement shall be determined by measurement of the achievement of Milestones between the Agreement Date and the Purchase Option Termination Date (October 31, 2011) as set forth in this Exhibit B, which includes in addition to this document, the following documents:†

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The following abbreviations used in this Exhibit B have the following meanings:

“AMB” means as measured by.

“CMOS” means a complementary metal oxide semiconductor.

“HTHHOP” means high temperature, high humidity operation.

“LTOP” means low temperature operation.

“MMD” means micro mirror display.

“MP” means mass product with respect to an order.

“QDS” means the Quality Description Sheet applicable to the relevant product as noted above.

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

Other relevant terms are defined in the related documents.

Milestone	Weight	Less than low score	Low score	Medium score	Hi Score
A. Cumulative yield from CMOS through mirror for XGA in TSMC and SVTC defined as product of CMOS, post and mirror QDS yield measured at cell level but not including yield loss caused by cell making. *	20%	*	*	*	*
B. Cumulative yield from CMOS through mirror for WXGA in Silterra defined as product of CMOS, post and mirror QDS yield measured at cell level but not including yield loss caused by cell making. See *	30%	*	*	*	*
C. Cumulative cell assembly, packaging and test yield defined as product of cell making and packaging QDS yield but not including yield loss caused by MEMS. See *	10%	*	*	*	*
D. Reliability on failure modes known at Commencement Date. *	10%	*	*	*	*

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

E. Number of tier-1 brand customers starting mass production AMB first MP order placed of at least 1K pieces. Parties agree that * are considered tier-1. Other customers to be agreed between parties on case by case basis	10%	*	*	*	*
F. SP Sales at acquisition date^{III}	10%	*	*	*	*
G. Q3 2011 SP operating expenses excluding cost of sales and but including depreciation	10%	*	*	*	*
H. Percentage of Purchaser Fully Diluted Capital Stock issuable as a result of milestone achievements.	100%	0%	8%	15%	20%

The Percentage of Purchaser Fully Diluted Equity Capital Stock issuable as a result of milestone achievements is calculated based on weighted achievement of milestones by (i) measuring for each milestone the achievement level in columns Less than Low Score, Low Score, Medium Score or High Score, and (ii) multiplying the factor in the "Weight" column for such milestone by the relevant Percentage of Purchaser Fully Diluted Equity Capital in Row H, related to the applicable column for such milestone achievement, and (iii) adding the sum of the resultants measurements.

The following example illustrates this calculation: If the Company were to achieve the Hi score for Milestones A and B, Medium Score for Milestones C and D, Low Score for E, and less than Low Score for Milestones F and G, then the Percentage of Purchaser Fully Diluted Equity Capital Stock issuable as a result of milestone achievements would be calculated as follows:

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

High Score Row H x Milestone A Weight Factor	(20% x 20%)	4.0%
High Score Row H x Milestone B Weight Factor	(20% x 30%)	6.0%
Medium Score Row H x Milestone C Weight Factor:	(15% x 10%)	1.5%
Medium Score Row H x Milestone D Weight Factor	(15% x 10%)	1.5%
Low Score Row H x Milestone E Weight Factor	(8% x 10%)	0.8%
Less than Low Score Row H x Milestone F Weight Factor	(0% x 10%)	0.0%
Less than Low Score Row H x Milestone G Weight Factor	(0% x 10%)	0.0%
Percentage of Purchaser Fully Diluted Equity Capital		13.8%

For all quantitative milestones, the milestone scoring assumes a proportional score following the ranges above. If for example a yield milestone scores exactly between low and mid case the equity awarded would be proportional between mid case and low case: $(8\%+15\%)/2=11.5\%$, corrected for the weight of the respective milestone.

* * * * *

*

*

(III) For the purposes of Milestone F, sales is defined as the sum of (i) 100% of the amount of all completed orders; plus (ii) the amount of all other orders in hand with a delivery date within 3 months after the acceptance of the order, discounted by the Risk Percentage, if any, described below. To account for the risk of customers cancelling orders after the Purchase Option Termination Date (October 31, 2011), we have agreed following discounting method:

*** INDICATES OMISSION OF MATERIAL WHICH HAS BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.**

For all orders that are not fulfilled we reduce their value for the purpose of Milestone F by a Risk Percentage over the amount that has not been paid on the Acquisition Date (i.e, full credit will be given for prepayments):

The Risk Percentage for orders with planned delivery from Jan 1 2012 to Jan 31 2012 is 25%.

The Risk Percentage for orders with planned delivery from Dec 1 2011 to Dec 31 2011 is 20%.

The Risk Percentage for orders with planned delivery from Nov 1 2011 to Nov 30 2011 is 15%.

For example if a customer placed a \$500,000 order on Oct 31 2011 and prepaid \$100,000, the Risk Percentage would be 25% over the open \$400,000, equals \$100,000. Hence for the purpose of this milestone the total recognized Sales from this order would be \$100,000 (prepaid) + \$400,000 (remaining order amount) - \$100,000 (25% of the remaining order amount)= \$400,000 worth of Sales.

EXHIBIT C

Final Merger Consideration Allocation Schedule

[Reserved]

EXHIBIT D

FIRPTA Certificate

[Reserved]

EXHIBIT E

[Reserved]

EXHIBIT F

Form of Agreement to Exchange Shares

SHARE EXCHANGE AGREEMENT

THIS SHARE EXCHANGE AGREEMENT (the “*Agreement*”) is made as of [_____] [●], 2010, by and among:

- (i) Himax Display Inc., a corporation organized under the laws of the Republic of China, located (the “*Himax Display*”); and
- (ii) EACH OF THE PARTIES LISTED IN EXHIBIT A HERETO (collectively, the “*Equityholders*” and each an “*Equityholder*”).

RECITALS

A. Himax Display and Spatial Photonics, Inc, a Delaware corporation (“*Spatial Photonics*”) have entered into an Agreement and Plan of Merger dated _____, 2010 (the “*Merger Agreement*”) pursuant to which Merger Sub shall merge with and into the Spatial Photonics (the “*Merger*”).

B. Immediately prior to the consummation of the Merger, each of the Equityholders will be the record owner of, as the context may require, (i) Common Stock, ____ par value per share, of the Company or (ii) Series A Preferred Stock, ____ par value per share, of the Company; (iii) Series B Preferred Stock, ____ par value per share, of the Company; (iii) Series C Preferred Stock, ____ par value per share, of the Company; (iv) Series D Preferred Stock, ____ par value per share, of the Company; (v) Class M Stock, ____ par value per share, of the Company. The securities referenced in (i) to (v) above are hereinafter collectively referred to as the “*Company Equity Interests*”). The class or series of Company Equity Interests to be held by each Equityholder immediately prior to the consummation of the Merger is set forth in Exhibit B of this Agreement.

C. Each of the Equityholders wishes to exchange such Equityholder’s respective portions of the Company Equity Interests by operation of the Merger and pursuant to the terms and conditions of the Merger Agreement for the common stock issued by Himax Display on the conditions set forth herein and in the Merger Agreement, and Himax Display desires to purchase the Company Equity Interests, pursuant to the terms and conditions of this Agreement and the Merger Agreement.

D. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Merger Agreement.

THE PARTIES AGREE AS FOLLOWS:

1. Exchange of Shares.

1.1 Exchange of Company Equity Interests for Himax Display Common Stock. Upon execution by each of the parties hereto, subject to the terms and conditions of the Merger Agreement, each Equityholder hereby, severally and not jointly, agrees to sell, assign and convey unto Himax Display by operation of the Merger and pursuant to the terms and conditions of the Merger Agreement all of his, her or its right, title and interest in and to his, her or its respective Company Equity Interests in exchange for the common stock issued by Himax Display. Himax Display shall purchase such Company Equity Interests upon such sale by operation of the Merger and pursuant to the terms and conditions of the Merger Agreement and, by issuing common stock to such Equityholders pursuant to the Merger Agreement and an exchange ratio set forth on Exhibit C attached hereto.

The number of common stock issued by Himax Display to be received by each Equityholder pursuant to this Section 1.1 is set forth as Exhibit D.

1.2 Closing. The closing of the purchase and sale of the Company Equity Interests by operation of the Merger and pursuant to the terms and conditions of the Merger Agreement shall take place as specified in the Merger Agreement (the "**Closing**").

1.3 Equityholder's Covenants.

At the Closing, each of the Equityholders and Himax Display shall take such actions and deliver such instruments as are specified in the Merger Agreement so that the Company Equity Interests shall be acquired by Himax Display pursuant to the terms of the Merger Agreement.

1.4 Himax Display's Closing and Other Obligations. No later than the date specified in the Merger Agreement, Himax Display shall deliver to the Equityholders evidence of the issuance of the common stock of Himax Display.

- 2. Termination.** This Agreement shall terminate automatically and be of no further force and effect upon the termination of the Merger Agreement in accordance with its terms.
- 3. Governing Law.** This Agreement shall be governed by, and construed in accordance with, the laws of the Republic of China.
- 4. Amendment of Agreement.** Any provision of this Agreement may be amended by a written instrument signed by (i) Equityholders having the right to receive a majority of Himax Display's common stock to be issued pursuant to the Merger Agreement; and (ii) Himax Display.

IN WITNESS WHEREOF, the parties hereto have executed this Share Exchange Agreement as of the date first above written.

[Signature Page to Follow]

Himax Display, Inc.

By: _____
Title: _____
[]

[Name of Equityholder]

By: _____
Title: _____
Address: _____

EXHIBIT A

Name of Equityholder	Address of Equityholder

EXHIBIT B

Name of Equityholder	Type of Company Equity Interests	Number of Company Equity Interests
TOTAL		

EXHIBIT C

Each Company Equity Interest shall be exchanged by operation of the Merger and pursuant to the terms and conditions of the Merger Agreement into Himax Display's common stock at the exchange ratio(s) of [_____]

EXHIBIT D

Name of Equityholder	Number of Himax Display's To Be Received

EXHIBIT G

Form of Cooperation Agreement

Cooperation Agreement

This Agreement is made as of November [●], 2010 by and between the following parties:

Himax Display Inc., a corporation organized under the laws of the Republic of China (“**Himax Display**”);

and

Spatial Photonics, a Delaware corporation (“**Spatial Photonics**”).

WHEREAS, Himax Display and Spatial Photonics agree to look for an opportunity of strategic alliance with respect to each party's individual business;

WHEREAS, Himax Display and Spatial Photonics have entered into an Agreement and Plan of Merger dated November __, 2010 (the “**Merger Agreement**”);

WHEREAS, in accordance with the terms set forth in the Merger Agreement, a wholly owned subsidiary of Himax Display shall merge with and into Spatial Photonics (the “**Merger**”); and

WHEREAS, Himax Display and Spatial Photonics' shareholders are contemplating a share exchange by operation of law pursuant to the Merger and pursuant to Paragraph 6, Article 156 of the ROC Company Law whereby Himax Display will issue common shares pursuant to Paragraph 6, Article 156 of the ROC Company Law as the consideration for 100% of the capital stock in Spatial Photonics held by its shareholders (“**Share Exchange**”) in accordance with the Merger Agreement. Himax Display and Spatial Photonics' shareholders have entered into a Share Exchange Agreement (“**Share Exchange Agreement**”) on [_____], 2010 to regulate matters pertaining to the Share Exchange.

WHEREAS, Himax Display agrees to effect the Share Exchange and desires to engage in closer business cooperation with Spatial Photonics after Himax Display acquires Spatial Photonics' shares held by Spatial Photonics' shareholders.

Now, therefore, in consideration of the facts above, the parties agree as follows:

Article 1 Share Exchange

- 1.1 Spatial Photonics agrees to cooperate with and help to effect the Share Exchange and facilitate the implementation of the Share Exchange Agreement to the extent Spatial Photonics is able to do so.
 - 1.2 Himax Display shall issue its common shares to Spatial Photonics' shareholders lawfully and
-

effectively on the date of the consummation of the Share Exchange in accordance with the Share Exchange Agreement.

Article 2 Business Cooperation

The parties undertake to each other to expand the business cooperation between them in the manner below as of the date of this Agreement:

Both parties shall seek synergy in the product development and strategy of each party's business, and each party will support the other party's business operations.

Article 3 Effectiveness; Term; Termination

Unless otherwise provided by this Agreement or agreed between the parties, this Agreement shall become effective upon the effective time of the Merger in accordance with the Merger Agreement ("Effective Time"). Prior to the Effective Time, this Agreement shall be of no force or effect and neither party shall have any rights or obligations under this Agreement. After the Effective Time, this Agreement can be terminated upon the mutual consent of Himax Display and Spatial Photonics or upon termination of the Merger Agreement. For purposes of clarification, if the Merger Agreement terminates for any reason prior to the Effective Time, then this Agreement shall terminate automatically at such time without having ever had any force or effect.

Article 4 Others

- 4.1 This Agreement is governed by the law of the Republic of China. The parties agree to refer any dispute by either party over the interpretation or performance of this Agreement to the R.O.C. Arbitration Association for arbitration in Taipei. Both parties agree that for the panel, each party will appoint its own arbitrators, and the two arbitrators will together appoint a chief arbitrator in accordance with the R.O.C. Arbitration Law, and the arbitration will be conducted in English.
 - 4.2 Where it is necessary to amend any provision of this Agreement pursuant to the instruction of the competent government authority, amendment of this Agreement shall as soon as possible be made according to the instruction of the competent authority.
 - 4.3 Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal, or unenforceable in
-

any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality, or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed, and enforced in such jurisdiction as if such invalid, illegal, or unenforceable provision or portion of any provision had never been contained herein.

- 4.4 No amendment or revision of this Agreement will be effective without the prior written consent of the parties hereto.
- 4.5 Headings used in this Agreement are inserted for ease of reference only and are not to be considered in construing or interpreting this Agreement.
- 4.6 Neither party may assign the rights to this Agreement to any third party or have a third party assume the obligations under this Agreement, absent the prior written consent of the other party.
- 4.7 This Agreement does not grant any right or compensation to any party other than the parties to this Agreement, whether in an express or implied manner.
- 4.8 Each party is to bear its costs and taxes arising out of this Agreement.
- 4.9 All attachments to this Agreement shall form an integral part of this Agreement.

[signatures follow on next page]

SIGNED BY:

Himax Display Inc.

By: _____
Title
Address:

2F No. 26 Zih Lian Road
Tree Valley Park
Sinshih Township
Tainan County 74148
Taiwan

Spatial Photonics, Inc.

By: _____
Title
Address:

930 Hamlin Ct.
Sunnyvale, CA 94089
United States of America

[Signature Page to Cooperation Agreement]

EXHIBIT H

Intellectual Property Agreement

INTELLECTUAL PROPERTY AGREEMENT

THIS INTELLECTUAL PROPERTY AGREEMENT (this "Agreement") is entered into as of _____, by and among Spatial Photonics, a Delaware corporation ("SP"), Himax, a corporation organized under the laws of the Republic of China ("Himax") and Himax Display, corporation organized under the laws of the Republic of China ("HD").

RECITALS

WHEREAS, SP, Himax and HD (each a "Party" and collectively "the Parties") are contemplating that HD will make an investment in SP with the possibility that the companies may be merged at some time in the future, pursuant to the terms of a merger agreement (the "Merger Agreement");

WHEREAS, the parties wish to undertake certain technology development activities in connection with the Project;

WHEREAS, the Parties wish to provide for the allocation of intellectual property rights in the technology developed in connection with the Project;

WHEREAS, technology and related inventions may be created by each Party in connection with the Project separately by employees or consultants of SP, by employees or consultants of Himax or HD, or jointly by employees or consultants of both SP on the one hand, and employees or consultants of either Himax, HD, or both, on the other hand; and

WHEREAS, the Parties wish to provide for the ownership and licensing rights to such technology and inventions created in connection with the Project.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual representations, warranties and covenants set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

ARTICLE 1 DEFINITIONS

For the purposes of this Agreement, the following definitions set forth below apply:

1.1 "Derivation" means, with regard to any Proprietary Matter, any derivative work from, improvement to, derivation, modification, or reproduction of such Proprietary Matter.

1.2 "Excluded IP Assets" means any and all Proprietary Matter owned by a Party and not licensed to the other Party or jointly owned by the Parties pursuant to this Agreement.

1.3 "Developed Technology" means technology developed by the Parties individually or collaboratively after the Effective Date in connection with the Project.

1.4 "H/HD" means Himax and Himax Display, collectively.

1.5 "H/HD Project Technology" means Developed Technology owned by H/HD pursuant to this Agreement.

1.6 “Project” means the development project undertaken by the Parties, including joint development and separate development activities, involving H/HD engineers working with SP employees at No. 26, Zih Lian Road, Tree Valley Park, Sinshih, Tainan County, Taiwan 74148 (R.O.C.) for the purpose of cooperation and development of electronic systems and cell assembly, as well as packaging and testing relating to MEMS Technology.

1.7 “Proprietary Project Technology” means H/HD Project Technology and SP Project Technology.

1.8 “Proprietary Matter” means any technology, invention, creation, development, discovery, process, method, equipment, practice, work, know-how, information, software, code, data, device, product, design, application, implementation conception or idea.

1.9 “Proprietary Rights” means any and all rights in or to or covering: (i) inventions, invention disclosures, and technology, and improvements thereto, (ii) patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof; (iii) trademarks, service marks trade names, and related rights, including all goodwill associated therewith; (iv) copyrights, works or authorship and all applications, registrations, and renewals in connection therewith; (v) mask works and all applications, registrations, and renewals in connection therewith; (vi) trade secrets; and (vii) other proprietary, intellectual or industrial property rights, whether existing now or being recognized or created in the future.

1.10 “SP Project Technology” means Developed Technology owned by SP pursuant to this Agreement.

ARTICLE 2 OWNERSHIP

2.1 Background Property. Each Party shall retain all rights, title, and interest in and to any Proprietary Matter owned, licensed, acquired, developed, discovered, conceived, authored, or created by or for such Party (alone or with another person) prior to this Agreement or independently from this Agreement, any and all Derivations thereof, and any and all Proprietary Rights therein and thereto (“Background Property”).

2.2 Separately Developed Property. A Party that acquires, develops, discovers, conceives, authors, or creates any Proprietary Matter as part of or in connection with this Agreement or otherwise, alone or with another person, but without participation of or as a result of any joint development with the other Party, shall own such Proprietary Matter, any and all Derivations thereof, and any and all Proprietary Rights therein and thereto (“Separately Developed Property”) without any right thereto of the other Party under or as a result of this Agreement, except as provided herein.

2.3 Reservation of Rights. Nothing in this Agreement assigns, transfers, conveys, or grants any rights, title, interest, license, or entitlement of any kind in or to any Background Property, any Separately Developed Property or any Excluded IP Assets of the other Party, except solely (i) if and to the extent that the owner or rightholder of any Background Property, Separately Developed Property or Excluded IP Assets expressly makes in writing any such assignment, transfer, conveyance or grant in or to Background Property and/or any Separately Developed Property, or (ii) as specifically stated in this Agreement.

2.4 Jointly Developed Property.

(a) *Jointly Developed Technology* -- with respect to Developed Technology that is developed, conceived or reduced to practice jointly by the Parties (and/or their respective agents and contractors) the Parties shall jointly own and retain (without any obligation of accounting) all Proprietary Rights in such Developed Technology. (“Jointly Owned Technology”).

(b) *Right to Use Jointly Owned Technology.* Each Party shall have the right to use, commercialize, and exploit any Jointly Owned Technology, without need for any notice to, or consent or approval by, the other Party, including, without limitation, using, offering, selling, leasing, otherwise disposing of, importing, and exporting any product or services, and reproducing, distributing, creating Derivations from, performing, and displaying any work, and otherwise exercising any Proprietary Rights in Jointly Owned Technology. Neither Party shall have any obligation or liability to the other Party to account for, or be liable for, any revenue, royalties, income, profits, or other returns or results from any of its use, commercialization or exploitation of any Jointly Owned Technology, and such other Party shall have no right, title or interest of any kind therein. Neither Party may sublicense Jointly Owned Technology, except in accordance with Section 3.5.

(c) *License to Background Property.* If and to the extent that any Jointly Owned Technology contains, or that use or exploitation of any Proprietary Project Technology licensed to the other Party under Article 3 necessarily uses, exploits or is covered by, a Party’s Background Property, such Party hereby grants a non-exclusive, worldwide, irrevocable, perpetual license, free of any royalty, license fee or other payment obligation, under such Party’s Proprietary Rights in and to such Background Property to the other Party to use and otherwise engage in activities related to such Background Property as and to the extent necessary for such other Party to use or exploit any Jointly Owned Technology or Proprietary Project Technology pursuant to its license under Article 3, except that the license under this Section 2.4(c) does not apply or extend to any trademarks, service marks, trade dress, logos, trade names, domain names, brand names, and corporate names, or like Proprietary Rights The license under this Section 2.6(c) is non -assignable and non-transferable, except as provided in Section 2.4(d) below. The licensed Party under this Section 2.4(c) does not have the right to grant, and may not grant, any sublicense or the right to grant any further sublicenses under the license in this Section 2.4(c), except as and to the extent necessary for such licensed Party to use or exploit any Jointly Owned Technology or Proprietary Project Technology as provided in Section 3.5.

(d) *Transfer of Jointly Owned Technology.* Each Party may transfer, assign, or convey, or grant any non-exclusive licenses to, its co-ownership interest in any Jointly Owned Technology to any third party with notice to the other Party, only in connection with a sale by a Party of (i) all its Proprietary Rights, or (ii) the business of the Party to which the Jointly Owned Technology relates. Any transferee, assignee, or conveyee of, or grantee of a non-exclusive license under, such co -ownership interest shall agree in writing to the provisions, and to comply with the provisions, set forth in this Section 2.4(d).

2.5 Release of Claims to Intellectual Property Rights. Each Party shall obtain and maintain in effect written agreements with each of its employees and contractors who participate in or contribute to any of the Developed Technology hereunder containing each such employee’s release of any claim or interest in any Proprietary Rights created in the performance of the development activities under the Project, and other terms sufficient for the Party to comply with all provisions of this Agreement and to support all grants and assignments of rights and ownership made by it hereunder.

2.6 Intellectual Property Assignment. Where certain Proprietary Rights specified in Article 2 are intended by Article 2 to vest in an applicable Party (the “Entitled Party”), but which Proprietary Rights have not so vested, the other Party (the “Assignor”) hereby assigns, transfers and convey (and agrees to

assign, transfer and convey) to the Entitled Party as much of Assignor's right, title and interest in and to such Proprietary Rights as was to have to have vested in the Entitled Party under Article 2. To the extent that the Assignor may not assign such Proprietary Rights under applicable law, the Assignor hereby grants and agrees to grant to the Entitled Party an exclusive, worldwide, perpetual, irrevocable, royalty free, paid up and unconditional license, or if such grant would be invalid or not fully enforceable under applicable law, such other right and license as the Entitled Party reasonably requests in order to acquire a legal position as close as possible to that contemplated by the parties under this Article 2.

2.7 Assignment Assistance. The Assignor shall provide, at the Entitled Party's expense, all assistance reasonably required by the Entitled Party to consummate, record and perfect the foregoing assignment and to protect, enforce and defend its Proprietary Rights, including, but not limited to, signing all papers and documents necessary to register and/or record such assignment with the United States Patent & Trademark Office, United States Copyright Office, other state and federal agencies and all corresponding government agencies and departments in all other countries. Assignor hereby appoints the Entitled Party as its attorney-in-fact to act as Assignor to execute and file the papers and documents specified in this Section 2.7 (Assignment Assistance) if Assignor is unwilling or unable to comply with the foregoing sentence of this Section 2.7 (Assignment Assistance). In addition, both Parties shall have their respective employees, consultants and agents assign or otherwise transfer to such Party all Proprietary Rights arising out of any work such employees, consultants or agents perform in connection with the Project.

2.8 Independent Development. Subject to Section 6.2 (Confidentiality), nothing in this Agreement will impair either Party's right to acquire, license, develop, manufacture or distribute itself, or through third parties on its behalf, technology similar to that to be developed under this Agreement or to market and distribute such similar technology in addition to or in lieu of the technology contemplated for development. Further, neither Party will have any obligations to limit or restrict the assignment or reassignment of any employees or contractors in connection with the development of such similar technology nor the technology contemplated by this Agreement.

2.9 Enforcement of Proprietary Rights. The parties will cooperate reasonably and in good faith with regard to prosecution, maintenance and enforcement of patents and other Proprietary Rights in connection with the Developed Technology under this Agreement.

ARTICLE 3 INTELLECTUAL PROPERTY LICENSES

3.1 SP Development License Grants. SP hereby grants to H/HD, under SP's Proprietary Rights, a non-exclusive, worldwide, nontransferable, royalty-free non-sublicenseable (except as provided in Section 3.5) perpetual license to make, use, manufacture, market, distribute, offer for sale, sell and support SP Project Technology and to modify, have modified, make or have made Derivatives of, the SP Project Technology.

3.2 H/HD Development License Grants. H/HD hereby grants to SP, under H/HD's Proprietary Rights, a non-exclusive, worldwide, nontransferable, royalty-free, non-sublicenseable (except as provided in Section 3.5) perpetual license to make, use, manufacture, market, distribute, offer for sale, sell and support H/HD Project Technology and to modify, have modified, make or have made Derivatives of such H/HD Technology

3.3 Third Party Licenses. Each Party agrees to use its reasonable efforts to notify the other Party in the event that it is notified by a third party that third party licenses, consents or releases are required for the development or other activities contemplated by this Agreement. In the event that a Party determines that it needs to obtain a license or other rights from any third party in connection with its

development obligations set forth in this Agreement, to the extent economically feasible, such Party shall obtain a license and pay all license fees and royalties, if any, with respect to any such third party license or other rights.

3.4 **No Implied License.** Except as expressly granted under Article 2 (Intellectual Property Ownership) or Article 3 (Intellectual Property Licenses), no licenses are granted either by implication, estoppel or otherwise with respect to either Party's Proprietary Matter or Proprietary Rights. All rights not expressly granted are reserved. Without limiting the generality of the foregoing, except as may be expressly provided in a separate written agreement signed by the parties, no license is granted herein by either Party under any of its trademarks, trade names, service marks, corporate names, and the like. Nothing in this Agreement prohibits either Party from licensing its own technology and Proprietary Rights to a third party.

3.5 **Sublicensing.** Subject to the terms and conditions of this Agreement, the licenses granted in this Article 3 (Intellectual Property Licenses) shall include the right of a Party to sublicense: (a) their respective affiliates and contractors, without the right to grant further sublicenses, to the extent necessary for such affiliates and contractors to perform their obligations in relation to a particular Project; and (b) their respective current or potential customers, without the right to grant further sublicenses, solely in connection with such customer's use of a licensed product purchased from the licensed Party here under.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

4.1 **Authority.** Each Party each represents and warrants that it has the full corporate power and authority to grant the rights and licenses granted hereunder in this Agreement, and that such grants will not conflict with, or violate the Proprietary Rights, of any third person.

4.2 **WARRANTY DISCLAIMER.** EXCEPT AS SET FORTH ABOVE IN THIS ARTICLE 4 (REPRESENTATIONS AND WARRANTIES), ALL SP PROJECT TECHNOLOGY, H/HD PROJECT TECHNOLOGY AND ALL OTHER PROPRIETARY MATTER ARE PROVIDED UNDER THIS AGREEMENT "AS IS" WITHOUT WARRANTY OF ANY KIND. THE PARTY USING SUCH PROPRIETARY MATTER ASSUMES THE ENTIRE RISK OF USE. EACH PARTY DISCLAIMS ALL WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT WITH RESPECT TO THE DEVELOPED TECHNOLOGY AND OTHER PROPRIETARY MATTER PROVIDED BY SUCH PARTY.

ARTICLE 5 TERM AND TERMINATION

5.1 **Term of Development Schedule.** This Agreement shall be effective upon the Effective Date and shall remain in force until the earlier of (i) completion of the Project, or (ii) the closing of the Merger Agreement, unless terminated sooner by mutual agreement of the parties.

5.2 **Termination.** If the relationship between the Parties is terminated (i.e. the Parties decide not to execute the Merger Agreement), either Party may terminate this Agreement, without further cause, upon ten (10) days' prior written notice to the other Party.

5.3 Effect of Termination. Upon the termination of this Agreement:

(a) Promptly after termination, each Party shall collect and deliver to the other Party whatever Developed Technology, Background Technology and Confidential Information that is in its possession, custody or control (including works in progress in any form or stage of completion) that is: (i) owned by the other Party as provided in Article 2 (Intellectual Property Ownership); and (ii) not subject to any perpetual license set forth in Article 3 (Intellectual Property Ownership).

(b) Except as otherwise provided herein, the ownership of any Developed Technology and work product related thereto (and all Proprietary Rights therein and thereto) shall be as set forth in Article 2 (Intellectual Property Ownership).

(c) Article 2 (Intellectual Property Ownership), Article 3 (Intellectual Property Licenses), this Section 5.3 (Effect of Termination), and Article 6 (General Provisions), shall survive termination or expiration of this Agreement in accordance with their terms.

ARTICLE 6
GENERAL PROVISIONS

6.1 General Provisions Incorporated. All provisions of the Merger Agreement in Article 10_(General Provisions) between the Parties are equally applicable to this Agreement.

6.2 Confidentiality. Each Party agrees to continue to abide by that certain Mutual_Nondisclosure Agreement dated as of April 19, 2010 (the "Confidentiality Agreement"), the terms of which are incorporated by reference in this Agreement and which terms will survive the termination of this Agreement. The existence of this Agreement and the terms hereof and thereof will be deemed to be confidential for purposes of the Confidentiality Agreement.

(This space intentionally left blank)

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement with legal and binding effect as of the date and year first above written.

“Himax”

Himax Technologies, Inc.

By: _____
Name: _____
Title: _____

“Himax Display”

Himax Display, Inc.

By: _____
Name: _____
Title: _____

“SP”

Spatial Photonics, Inc.

By: _____
Name: _____
Title: _____

EXHIBIT I
Form of Joinder Agreement

[Reserved]

Himax Technologies, Inc.

List of Subsidiaries

Subsidiary	Jurisdiction of Incorporation	Percentage of Our Ownership Interest
Himax Technologies Limited	ROC	100.0%
Himax Technologies Anyang Limited	South Korea	100.0%
Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.)	ROC	100.0%
Himax Technologies (Samoa), Inc.	Samoa	100.0% ⁽¹⁾
Himax Technologies (Suzhou) Co., Ltd.	PRC	100.0% ⁽²⁾
Himax Technologies (Shenzhen) Co., Ltd.	PRC	100.0% ⁽²⁾
Himax Display, Inc.	ROC	88.0% ⁽¹⁾
Integrated Microdisplays Limited	Hong Kong	88.0% ⁽³⁾
Himax Analogic, Inc.	ROC	75.1% ⁽¹⁾
Himax Imaging, Inc.	Cayman Islands	93.4%
Himax Imaging, Ltd.	ROC	93.9% ⁽⁴⁾
Himax Imaging Corp.	California, USA	93.4% ⁽⁵⁾
Argo Limited	Cayman Islands	100.0%
Tellus Limited	Cayman Islands	100.0% ⁽⁶⁾
Himax Media Solutions, Inc.	ROC	78.0% ⁽⁷⁾
Himax Media Solutions (Hong Kong) Limited	Hong Kong	78.0% ⁽⁸⁾
Harvest Investment Limited	ROC	100.0% ⁽¹⁾

(1) Indirectly, through our 100.0% ownership of Himax Technologies Limited.

(2) Indirectly, through our 100.0% ownership of Himax Technologies (Samoa), Inc.

(3) Indirectly, through our 88.0% ownership of Himax Display, Inc.

(4) Indirectly, as to 92.1% through our 93.4% ownership of Himax Imaging, Inc. and as to 7.9% through our 100.0% ownership of Himax Technologies Limited.

(5) Indirectly, through our 93.4% ownership of Himax Imaging, Inc.

(6) Indirectly, through our 100.0% ownership of Argo Limited.

(7) Directly, as to 44.0%, and indirectly, as to 34.0% through our 100.0% ownership of Himax Technologies Limited.

(8) Indirectly, through our 78.0% ownership of Himax Media Solutions, Inc.

Certification

I, Jordan Wu, certify that:

1. I have reviewed this annual report on Form 20-F of Himax Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
 4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
-

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 20, 2011

By: /s/ Jordan Wu
Name: Jordan Wu
Title: President and Chief Executive Officer

Certification

I, Jessica Pan, certify that:

1. I have reviewed this annual report on Form 20-F of Himax Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
 4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
-

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 20, 2011

By: /s/ Jessica Pan
Name: Jessica Pan
Title: Acting Chief Financial Officer

Certification

May 20, 2011

The certification set forth below is being submitted to the Securities and Exchange Commission in connection with the Annual Report on Form 20-F for the year ended December 31, 2010 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Jordan Wu, the President and Chief Executive Officer of Himax Technologies, Inc., and Jessica Pan, the Acting Chief Financial Officer of Himax Technologies, Inc., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Himax Technologies, Inc.

By: /s/ Jordan Wu

Name: Jordan Wu

Title: President and Chief Executive Officer

By: /s/ Jessica Pan

Name: Jessica Pan

Title: Acting Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Himax Technologies, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-137585) on Form S-8 of Himax Technologies, Inc. and subsidiaries of our reports dated May 11, 2011, with respect to the consolidated balance sheets of Himax Technologies, Inc. as of December 31, 2010 and 2009, 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, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 annual report on Form 20-F of Himax Technologies, Inc.

Our report dated May 11, 2011, contains an explanatory paragraph that states that the Company adopted the measurement date provisions of Accounting Standards Codification Subtopic 715-20, "*Compensation-Retirement Benefits-Defined Benefit Plans*", as of December 31, 2008.

/s/ KPMG
Taipei, Taiwan (the Republic of China)
May 20, 2011
