Operator Intro: Welcome to Himax Technologies fourth quarter 2006 results Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, you will need to press the star 1 on your push button phone. The call is scheduled for one hour.

As a reminder, this conference is being recorded today. A replay will be available 2 hours after the call today, through noon on Tuesday, February 13, 2006 in Taiwan. The replay dial-in number is 1-201-612-7415 with account number 3055 and conference ID number 228265. The replay will also be accessible at www.himax.com.tw.

David

Thank you operator. Welcome everyone to Himax’s fourth quarter 2006 earnings call. Joining us from the company are Mr. Jordan Wu, President and Chief Executive Officer, and Mr. Max Chan, Chief Financial Officer. After the company’s prepared comments we will have time for any questions.

If you have not yet received a copy of today’s results release, please call The Ruth Group at 646-536-7003. Or you can get a copy off of Himax’s website.

Before we begin the formal remarks, the Company’s attorneys advise that certain statements in this conference call, including statements regarding expected future financial results and industry growth, are forward-looking statements that involve a number of risks and uncertainties that could cause actual events or results to differ materially from those described in this conference call.

Factors that could cause actual results to differ include general business and economic conditions and the state of the semiconductor industry; level of competition; demand for end-use applications products; reliance on a small group of principal customers; continued success in technological innovations; ability to develop and protect our intellectual property; pricing pressures including declines in average selling prices; changes in customer order patterns; shortages in supply of key components; changes in environmental laws and regulations; exchange rate fluctuations; regulatory approvals for further investments in our subsidiaries; and other risks described from time to time in the Company’s SEC filings, including its Form F-1 dated March 13, 2006, as amended.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

At this time, I would now like to turn the call over to Mr. Jordan Wu. Please go ahead, sir.
Mr. Jordan Wu

Thank you David and thank you everyone for joining us on today’s call.

I will now review Himax’s performance during the fourth quarter of 2006 and discuss the outlook for the first quarter of 2007. Max, our CFO, will then provide further details on our financial performance.

We are pleased with the results we achieved in the final quarter of 2006, as our revenues and net income both improved significantly from the previous quarter. The industry continues to face a challenging period and we are doing our best to work through it.

Our fourth quarter net revenue was $220.9 million, a record high since our inception. It represented a 24.6% growth year over year, and a 24.7% growth quarter over quarter. The strong sequential growth in revenue was primarily due to high seasonal demand, the addition of new customers, and the fulfillment of demand that was pushed out of Q3 into Q4.

In terms of customer mix, revenues from related parties were $129.0 million, about 58% of total revenue in the fourth quarter. Revenues from unrelated parties were $91.9 million, or about 42% of total revenue.

Revenues from large panel display drivers were up 23.5% sequentially and accounted for approximately 87% of our total revenues in the fourth quarter. Growth was primarily driven by the increase in LCD TV demands during the holiday season.

Revenues from small- and medium-sized display drivers accounted for approximately 11% of our total revenues. This is up from approximately 9% in Q306. Sequential growth for small and medium-sized display drivers was 48.8%, driven by seasonal demand and addition of new customers.

We are pleased that we were able to increase our gross margin to 18.9% in the fourth quarter from 17.4% in Q306, despite the challenging market, as we continued to improve our product mix and lower our cost.
Our GAAP operating margin increased sequentially from 1.5% to 10.3%, primarily due to a lower share-based compensation charge in the quarter. Share-based compensation for the third and fourth quarter was approximately $11.5 million and $1.5 million respectively. Excluding share-based compensation, our non-GAAP operating margin also increased sequentially from 8.0% to 11.0%.

In addition to the top-line growth, we also achieved record level of net income and EPS in the fourth quarter. Net income came in at $29.4 million as compared to $4.6 million in the third quarter. EPS was $0.15, as compared to $0.02 in the previous quarter. Tax benefit in the fourth quarter was approximately $4.2 million or $0.02 per ADS. Max will elaborate on the tax benefit later on.

Despite the extreme pricing pressure and excess inventory issues faced by the TFT LCD supply chain, 2006 was a remarkable year for Himax.

The full year's revenue was $744.5 million, a growth of 37.8% year over year. According to iSuppli, our world wide market share for large panel applications was approximately 19.6% in 2006, a significant improvement from 15.9% in 2005.

In addition, we continued to diversify our customer base. Revenues from unrelated parties were $331.0 million, an increase of 52.3% year over year, while revenues from related parties were $413.5 million, an increase of 28.1% year over year.

On February 1st we closed the acquisition of Wisepal Technologies. The exchange ratio was revised to 1 Company ordinary share for 5.26 Wisepal shares. The original exchange ratio was 1 Company share for 5 Wisepal shares. This revision was made to reflect the change in our total outstanding shares upon the completion of our share buyback program which we shall talk about in a moment. Starting the first quarter we will be reporting our results on a consolidated basis, including Wisepal. We are very pleased with the progress of integration of both companies so far. We believe this acquisition will greatly strengthen our position in the small- and medium-sized applications.
The share buyback program was announced to the market on November 2nd. Since then, a total of approximately 10 million of the company’s American Depository Shares had repurchased from the open market for a total of approximately $50 million. The repurchased ADSs and their underlying ordinary shares had been cancelled, thereby reducing approximately 5% of the Company’s issued and outstanding shares.

Now let me go into our guidance for the first quarter of 2007.

We expect demand for PC-related and TV panels to decline significantly due to seasonality and customers’ control on capacity utilization. However, we expect demand for small- and medium-sized will continue to grow as we are adding new customers and products.

Overall, we expect revenue to decline 16%-18% sequentially; with gross margin expected to remain flat with 4Q06. Diluted GAAP EPS is expected to be approximately $0.08 to $0.09 as a result of lower revenue and higher operating expenses.

Now let me turn over to Max Chan, our CFO, for some financial details.
Mr. Max Chan

Thank you, Jordan.

Net revenues in the fourth quarter were $220.9 million, representing a year-on-year growth of 24.6% and a sequential growth of 24.7%. Large panel display driver revenues increased by 23.5%, while small- and medium-sized display driver revenues increased by 48.8% sequentially.

The gross margin had increased to 18.9% from 17.4% a quarter ago. Our gross margin was enhanced primarily due to our increased shipment in small- and medium-sized driver ICs, which typically enjoyed higher gross margins. Small- and medium-sized panel drivers accounted for approximately 11% of our revenue in the period, up from approximately 9% a quarter ago.

Our operating expense, excluding share-based compensation, was $17.4 million in the third quarter, up approximately $0.6 million from previous quarter. Our total headcount increased to 925 from 903 a quarter ago. The acquisition of Wisepal has increased our headcount by a further 50 at the beginning of February.

Upon reviewing our 2006 performance, tax benefit of approximately $4.2 million was recorded in the fourth quarter to reflect a change in estimate relating to the full year’s effective tax rate. This tax benefit was a result of lower (current income) tax expense and higher (deferred income) tax credit. The lower tax expense was mainly due to a higher percentage of tax exempted revenue as of total revenues, whereas higher tax credit was a result of our increasing R&D activities. We expect the effective tax rate to be around 0% in the first quarter of 2007.

Total share-based compensation accrued in the fourth quarter was approximately $1.5 million, or $0.01 per diluted share, as compared to $11.5 million, or $0.06 in the third quarter.

Cash used for the share buyback program during the quarter was approximately $40 million. As of December 31st, 2006, our ending cash balance was $109.8 million, with no debt. We used approximately $10 million in the first quarter of 2007 to complete the remainder of our share buyback program, bringing the total buyback amount to approximately $50 million.
On October 23rd last year, we had completed the relocation of our headquarters to a new facility with a total floor area of 22,172 square meters within the Tree Valley Industrial Park in Tainan. This move to a larger office space has positioned Himax for continued growth in years to come.

Capital expenditure for the fourth quarter was $5.6 million. This includes primarily expenditure relating to relocation to our new headquarters, and purchase of R&D related equipments. Capex for the full year 2006 was $19.3 million.

As Jordan noted, we closed the Wisepal acquisition on February 1st, 2007. This resulted in an immediate addition of approximately 6.2 million shares, representing approximately 3.1% of our enlarged share capital. Our share buyback program helped offset this increase. We expect the incremental amortization charges resulting from acquired intangible assets to be approximately $1.2 million per annum.

Jordan provided our Q1 outlook earlier. We are basing that guidance on approximately 196.1 million diluted weighted average outstanding shares.

Operator, that concludes our prepared remarks. We can now take any questions.