

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 4)

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 000-51847

HIMAX TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

CAYMAN ISLANDS

(Jurisdiction of incorporation or organization)

NO. 26, ZIH LIAN ROAD

SINSHIH DISTRICT, TAINAN CITY 74148

TAIWAN, REPUBLIC OF CHINA

(Address of principal executive offices)

Jackie Chang

Chief Financial Officer

Telephone: +886-2-2370-3999

E-mail: jackie_chang@himax.com.tw

Facsimile: +886-2-2314-0877

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

Taiwan, Republic of China

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

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

Yes No

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EXPLANATORY NOTE

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

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

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

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

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 26, 2012

Changes in Internal Control Over Financial Reporting

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

ITEM 18. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

ITEM 19. EXHIBITS

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

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

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

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

** Filed or furnished herewith.

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

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

SIGNATURES

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

Himax Technologies, Inc.

By: /s/ Jackie Chang

Name: Jackie Chang

Title: Chief Financial Officer

Date: May 20, 2013

HIMAX TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Himax Technologies, Inc.:

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

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

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

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

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 26, 2012

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

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

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

Note 1. Background, Principal Activities and Basis of Presentation

Background

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

Principal Activities

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

Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

(a)

Principles of Consolidation

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Investment Securities

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

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

(e)

Allowance for Doubtful Accounts

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(f) Inventories

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

(g) Property, Plant and Equipment

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

(h) Goodwill

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

(i) Intangible Assets

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

(j) Impairment of Long-Lived Assets

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(k)

Revenue Recognition

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

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

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

(l)

Product Warranty

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

historical experience and any specifically identified quality issues.

(m) Research and Development and Advertising Costs

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

(n) Employee Retirement Plan

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(o) Income Taxes

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

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

(p) Foreign Currency Translation and Foreign Currency Transactions

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

(q) Earnings Per Ordinary Share

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

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

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

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

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

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(r) Share-Based Compensation

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

(s) Segment Reporting

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

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

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

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

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

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

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

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

(t) Noncontrolling Interests

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

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

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(u)

Fair Value Measurements

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

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

(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

(ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

(v) Recently Issued Accounting Standards

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

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

Reclassifications

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

Note 3. Investments in Marketable Securities Available-for sale

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

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

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

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

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

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

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

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

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

Allowance for doubtful accounts

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

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

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

Note 5. Equity Method Investments

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

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

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

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

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

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

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

Note 6. Inventories

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

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

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

Note 7. Intangible Assets, Other than Goodwill

| | December 31, 2010 | | |
|-----------------------|------------------------------|---|---------------------------------|
| | 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 |
|-------|----------|-------|

December 31, 2011

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

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

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

Note 8. Property, Plant and Equipment

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

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

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

(a) Investments in Non-marketable Equity Securities

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

(b) Investments in corporate convertible bonds

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

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

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

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

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

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

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

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

Note 10. Other Accrued Expenses and Other Current Liabilities

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

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

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

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

Note 11. Short-Term Debts

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

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

Note 12. Government Grants

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

Note 13. Retirement Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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

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

Note 14. Share-Based Compensation

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

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

(a)

Long-term Incentive Plan

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

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

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

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance at December 31, 2011 - -

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

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

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

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

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

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

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

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

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

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

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

(c) Employee stock options

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

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

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual term |
|----------------------------|-----------------------------|--|--|
| Balance at January 1, 2009 | 1,416,875 | \$ 1.856 | 3.375 |

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

Note 15. Equity

| (a) | Share capital |
|-----|---------------|
|-----|---------------|

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

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

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

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

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

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

recapitalization plan, will remain unchanged.

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

(b)

Earnings distribution

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

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

Note 16. Income Taxes

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

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

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

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

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

The Company is entitled to the following tax exemptions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

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

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

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

Note 17. Fair Value Measurement

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

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

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

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

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

Liabilities:

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

**Fair Value Measurements
at**

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

Assets:

Cash and cash equivalents:

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

| | | | |
|-------|-----|--------|---|
| Total | \$- | 84,200 | - |
|-------|-----|--------|---|

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

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

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

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

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

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

publicly traded shares.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

Note 18. Significant Concentrations

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

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

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

Note 19. Related-party Transactions

| (a) | Name and relationship |
|--------------------------------|-----------------------|
| Name of related parties | Relationship |

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

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

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

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

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

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

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

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

(b) Significant transactions with related parties

(i) Revenues and accounts receivable

Revenues from related parties are summarized as follows:

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

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

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

\$445,245 335,595 258,156

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

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

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

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

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

(ii) Property transactions

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

(iii) Lease

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

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

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

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

(iv) Others

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

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

Note 20. Commitments and Contingencies

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

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

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

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

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

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

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

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

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

(f)

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

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

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

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

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

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

Note 21. Segment, Product and Geographic Information

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

| | | | |
|-------------------------------|-----------|-------|--------|
| Depreciation and amortization | \$ 10,110 | 3,685 | 13,795 |
|-------------------------------|-----------|-------|--------|

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

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

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

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

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

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

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

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

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

December 31,

2010 2011
 (in thousands)

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

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

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

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

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

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

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

Condensed Balance Sheets

December 31,

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

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

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

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

Condensed Statements of Cash Flows

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

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

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2010 and 2011

Note 23. Subsequent Event

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

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