Himax Technologies, Inc.
Form 20-F
June 03, 2010

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

OR

o 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, TREE VALLEY PARK
SINSHIH TOWNSHIP, TAINAN COUNTY 74148
TAIWAN, REPUBLIC OF CHINA
(Address of principal executive offices)

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

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 358,012,184 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x 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. o Yes x 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. x Yes o 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 o Accelerated filer x Non-accelerated filer o

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

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

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. o Item 17 o 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). o Yes x No

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TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

CERTAIN CONVENTIONS

Unless otherwise indicated, all translations from U.S. dollars to NT dollars in this annual report were made at a rate of $1.00 to NT$31.95, the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. No representation is made that the NT dollar amounts referred to herein could have been or could be converted into U.S. dollars at any particular rate or at all. On May 28, 2010, the noon buying rate was $1.00 to NT$32.00. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Unless otherwise indicated, in this annual report,

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

- "AMOLED" refers to active matrix organic light-emitting diode;
- "CMOS" refers to complementary metal oxide semiconductor;
- "IC" refers to integrated circuit;

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The selected consolidated statement of income data and selected consolidated cash flow data for the years ended December 31, 2007, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 are derived from our audited consolidated financial statements included herein, which were prepared in accordance with U.S. GAAP. The selected consolidated statement of income data and selected consolidated cash flow data for the years ended December 31, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005, 2006 and 2007 are derived from our audited consolidated financial statements that have not been included herein and were prepared in accordance with U.S. GAAP. Our consolidated financial statements include the accounts of Himax Technologies, Inc. and its subsidiaries as if we had been in existence for all years presented. As a result of our reorganization, 100% of our outstanding ordinary shares immediately prior to our initial public offering were owned by former shareholders of Himax Taiwan. See “Item 4.A. Information on the Company—History and Development of the Company.” In presenting our consolidated financial statements, the assets and liabilities, revenues and expenses of Himax Taiwan and its subsidiaries are included in our consolidated financial statements at their historical amounts for all periods presented. Our historical results do not necessarily indicate results expected for any future periods. The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes to those statements included herein.

Certain prior year amounts have been reclassified to conform to the 2009 financial statement presentation. All shares, per share and share equity data set forth below have been retroactively adjusted to reflect the stock split and the change in par value effected on August 10, 2009 for all periods presented.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands, except per share data)				
Consolidated Statement of Income Data:					
Revenues from third parties, net	$ 217,420	$ 329,886	$ 371,267	$ 312,336	$ 245,075
Revenues from related parties, net	322,784	414,632	546,944	520,463	447,306
Costs and expenses(1):					
Cost of revenues	419,380	601,565	716,163	628,693	550,556
Research and development	41,278	60,655	73,906	87,574	71,364
General and administrative	6,784	9,762	14,903	19,353	16,346
Bad debt expense	-	187	-	25,305	218
Sales and marketing	4,762	6,783	9,334	11,692	10,360
Operating income	$ 68,000	$ 65,566	$ 103,905	$ 60,182	$ 43,537

Net income(2)	$ 61,335	$ 74,953	$ 111,455	$ 72,724	$ 35,810
Net income attributable to Himax stockholders	$ 61,558	$ 75,190	$ 112,596	$ 76,381	$ 39,650

	Year Ended December 31,				
	2005	2006	2007	2008	2009
Earnings per ordinary share attributable to Himax stockholders(2):					
Basic	$ 0.17	$ 0.20	$ 0.29	$ 0.20	$ 0.11
Diluted	$ 0.17	$ 0.19	$ 0.29	$ 0.20	$ 0.11
Earnings per ADS attributable to Himax stockholders:					
Basic	$ 0.35	$ 0.39	$ 0.57	$ 0.40	$ 0.21
Diluted	$ 0.34	$ 0.39	$ 0.57	$ 0.40	$ 0.21
Weighted-average number of ordinary shares used in earnings per share computation:					
Basic	352,210	384,950	393,725	383,229	369,652
Diluted	361,317	390,180	395,043	383,753	370,229
Cash dividends declared per ordinary share(3)	$ 0.038	$ 0.000	$ 0.100	$ 0.175	$ 0.150
Cash dividends declared per ADS	$ 0.075	$ 0.000	$ 0.200	$ 0.350	$ 0.300

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

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands)				
Cost of revenues	$ 188	$ 275	$ 422	$ 435	$ 264
Research and development	6,336	11,806	15,393	15,861	10,936
General and administrative	848	1,444	2,182	2,813	1,959
Sales and marketing	1,241	1,625	2,324	2,691	1,902
Total	$ 8,613	$ 15,150	$ 20,321	$ 21,800	$ 15,061

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

(2) Under the ROC Statute for Upgrading Industries, we are exempt from income taxes for income attributable to expanded production capacity or newly developed technologies. Based on the ROC statutory income tax rate of 25%, the effect of such tax exemption was an increase on net income and basic and diluted earnings per share attributable to our stockholders of $27.1 million, $0.07 and $0.07, respectively, for the year ended December 31, 2007, $25.2 million, $0.07 and $0.07, respectively, for the year ended December 31, 2008, and $9.4 million, $0.03 and $0.03, respectively, for the year ended December 31, 2009. A portion of these tax exemptions expired or will expire on March 31, 2009, December 31, 2010, December 31, 2012 and December 31, 2013.

(3) The above cash dividends should not be considered representative of the dividends that would be paid in any future periods or our dividend policy. See “Item 8.A.8. Financial Information—Dividends and Dividend Policy” for more information on our dividends for the years from 2007 to 2010 and our dividend policy.

	As of December 31,				
	2005	2006	2007	2008	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents(1)	$ 7,086	$ 109,753	$ 94,780	$ 135,200	$ 110,924
Accounts receivable, net	80,259	112,767	88,682	51,029	64,496
Accounts receivable from related parties, net	69,587	116,850	194,902	104,477	138,172
Inventories	105,004	101,341	116,550	96,921	67,768
Total current assets	300,056	466,715	538,272	434,650	423,797
Total assets	327,239	518,794	652,762	565,548	550,448

	As of December 31,				
	2005	2006	2007	2008	2009
	(in thousands)				
Accounts payable	105,801	120,407	147,221	53,720	88,079
Total current liabilities(2)	160,784	153,279	185,048	90,143	120,651
Total liabilities	160,784	153,471	190,364	95,542	126,376
Ordinary shares	109,253	116,160	115,188	114,072	107,404
Total equity(1)	166,455	365,323	462,398	470,006	424,072

Note: (1) Cash and cash equivalents as of December 31, 2006 increased significantly as compared to December 31, 2005. This increase was due primarily to net proceeds of $147.4 million received from our initial public offering in April 2006, which also caused the increase in total equity by the same amount.

(2) Total current liabilities as of December 31, 2007 and 2008 were previously stated at $185,599 thousand and $91,630 thousand, respectively, and have been revised due to the reclassification of $551 thousand and $1,487 thousand, respectively, as non-current income taxes payable and other liabilities.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands)				
Consolidated Cash Flow Data:					
Net cash provided by operating activities	$ 12,464	$ 29,696	$ 77,162	$ 136,500	$ 73,630
Net cash used in investing activities	(25,363)	(8,927)	(25,019)	(21,764)	(7,255)
Net cash provided by (used in) financing activities	14,404	81,886	(67,241)	(74,350)	(91,065)

Exchange Rate Information

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

	Noon Buying Rate			
	Average(1)	High	Low	Period-end
	(NT dollars per U.S. dollar)			
Period				
2005	32.16	33.77	30.65	32.80
2006	32.49	33.31	31.28	32.59
2007	32.82	33.41	32.26	32.43
2008	31.51	33.55	29.99	32.76
2009	32.96	35.21	31.95	31.95
November	32.32	32.58	32.12	32.20
December	32.25	32.38	31.95	31.95
2010				
January	31.87	32.04	31.65	31.94
February	32.06	32.14	31.98	32.12
March	31.83	32.04	31.70	31.73
April	31.48	31.74	31.30	31.31
May (through May 28)	31.83	32.33	31.40	32.00

Source: Federal Reserve Bank of New York.

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

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

Risks Relating to Our Financial Condition and Business

We generate a substantial majority of our revenues from a few key customers, including Chimei Innolux Corporation, which is the surviving entity following the merger of three of our large customers. The increase in bargaining power of any of our key customers and the loss of, or a significant reduction in orders from, any of them could materially and adversely affect our operating results.

Our key customers in 2009 included Chi Mei Optoelectronics Corp., or CMO, and Samsung Electronics Taiwan Co., Ltd., or Samsung, which, together with their respective affiliates, accounted for approximately 64.3% and 7.2%, respectively, of our revenues in 2009. In November 2009, CMO, InnoLux Display Corporation, or Innolux, and TPO Displays Corporation, or TPO, which have been among our largest customers, 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 Chimei Innolux. As over 50% of our revenues have historically been generated from CMO, our results of operations and financial condition will continue to be significantly linked to the purchase policy and success of Chimei Innolux. If Chimei Innolux seeks lower prices from us as a result of increased bargaining power, or if Chimei Innolux seeks a different purchase policy resulting in a lower amount of combined purchases from us, our business and financial results could be materially and adversely affected. Moreover, our relationship with Chimei Innolux may not be as close as our prior relationship with CMO because none of our directors hold a director or officer position at Chimei Innolux after the merger. In addition, our key customers, including Chimei Innolux, have been adversely affected by the impact of the global economic downturn in recent years. The loss of any of our key customers or a sharp reduction in sales to any of them would have a significant negative impact on our business and results of operations. Moreover, the financial health of our key customers will continue to materially impact our results of operations and financial condition. Our sales to these key customers are made pursuant to standard purchase orders rather than long-term contracts. Therefore, these customers may cancel or reduce orders more readily than if we had long-term purchase commitments from them. In the event of a cancellation, postponement, or reduction of an order, we would likely not be able to reduce operating expenses sufficiently so as to minimize the impact of the lost revenues. Alternatively, we may have excess inventory that we cannot sell, which would harm our operating results. We expect our reliance on sales to certain of our large customers, to continue in the foreseeable future. Therefore, our operating results will likely continue to depend on sales to a relatively small number of customers, as well as on the ability of such customers to sell products that incorporate our products.

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

There has been an increased level of industry consolidation among our suppliers since late 2009. As announced in September 2009 and completed in January 2010, Chartered Semiconductor Manufacturing Ltd., one of our foundry service providers, merged with Globalfoundries, one of the world’s largest semiconductor foundries. As announced in December 2009, Chipbond Technology Corporation, or Chipbond, and International Semiconductor Technology Ltd.,

or IST, both among our principal providers of gold bumping, assembly and testing and chip probe testing services, also recently completed their merger on April 1, 2010. Such merger and acquisition activities will likely increase the size and market power of the relevant suppliers and reduce the number of suppliers we could use. Suppliers would therefore be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. If we are unable to transfer any increase in average unit cost to our customers by selling at higher prices, our gross margin would decrease and our results of operations could be adversely affected.

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

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

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

In 2008 and 2009, 94.9% and 93.3% of our revenues, respectively, were attributable to display drivers that were incorporated into TFT-LCD panels. We expect to continue to substantially depend on sales to the TFT-LCD panel industry for the foreseeable future. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions. The average selling prices of TFT-LCD panels generally decline with time as a result of, among other factors, capacity ramp-up, technological advancements and cost reduction. The average selling prices of TFT-LCD panels could further decline for numerous reasons, including but not limited to the following:

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

Beginning in the second half of 2008, as a result of the severe economic downturn, the TFT-LCD panel industry suffered from an over-supply and a decrease in the average selling price of TFT-LCD panels. Such environment continued as we entered 2009, resulting in significant downward pricing pressure on our products. There was a rebound in demand for TFT-LCD panels in the second quarter of 2009, but the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. In addition, the merger of certain of our major customers, including CMO, Innolux and TPO, could result in an increase in their bargaining power and therefore subject us to additional downward pricing pressure. We cannot assure you that in such periods in which we experience significant downward pricing pressure, we could sufficiently reduce costs to completely offset the loss of revenues. In addition, a severe and prolonged industry downturn could also result in higher risks in relation to the collectibility of our accounts receivable, the marketability and valuation of our inventories, the impairment of our tangible and intangible assets, and the stability of our supply chain. As a result, the cyclicality of the TFT-LCD panel industry could adversely affect our revenues, cost of revenues and results of operations.

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

As of December 31, 2009, our accounts receivable less allowance for sales returns and discounts from CMO and its affiliates were $137.0 million, which represented approximately 67.6% of our total accounts receivable less allowance for doubtful accounts, sales returns and discounts. The concentration of our accounts receivable exposes us to increased credit risk. For example, in 2008, we recognized a valuation allowance of $25.3 million for the probable credit loss relating to our customer Shanghai SVA-NEC Liquid Crystal Display Co. Ltd., or SVA-NEC, which represented more than 10% of our total accounts receivable outstanding as of December 31, 2008. This resulted in a bad debt expense of $25.3 million, which adversely and materially affected our results of operations for the year ended December 31, 2008. In addition, we have at times agreed to extend the payment terms for certain of

our third-party and related party customers. We may also agree to requests for the extension of payment terms in the future. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable or the extension of payment terms for our customers could adversely affect our cash flow, liquidity and our operating results.

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

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

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

Unfavorable changes in any of the above factors may seriously harm our customers' business, financial condition and results of operations. In such cases, our customers may seek to cut down their cost of components, including our products, since components generally account for a significant portion of the cost of TFT-LCD panels. Therefore, changes in our customers' profitability would likely affect their demand for our products and our ability to sell our products at desirable prices. For example, starting from the middle of 2008, our customers generally experienced significant pressure on or a significant decline in prices and profit margins and therefore exerted strong downward pricing pressure on us as their supplier. Our customers continued to operate in a challenging business environment in 2009 and may experience a further decline in profitability or may not be profitable at all. This could adversely affect our profit margin, significantly reduce our profits and materially affect our results of operations and financial condition.

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

In 2008 and 2009, we derived 94.9% and 93.3% of our revenues from the sale of display drivers used for large-sized applications, mobile handset applications and consumer electronics applications, and we expect to continue to derive a substantial portion of our revenues from these or related products. In addition, we were one of the world's largest suppliers of display drivers, particularly for large-sized TFT-LCD panel applications, in terms of revenues in 2009. As the display drivers industry and our display drivers business are relatively mature, there may be limited potential for the overall display drivers market to grow and for us to further grow our market share, which could limit our future growth in revenues. Failure to grow our unit shipments for display drivers, coupled with a general

decline in the average selling prices, could adversely and materially affect our results of operations. See also "—Risks Relating to Our Industry— The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results." We expect to continue to derive a substantial portion of our revenues from the sale of display drivers. Therefore, the continued market acceptance of our display drivers is critical to our future success. Failure to grow or maintain our revenues generated from the sales of display drivers could adversely and materially affect our results of operations and financial condition.

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

We have devoted, and intend to continue to devote, financial and management resources to the development, manufacturing and marketing of non-driver products, including, among others, timing controllers, TFT-LCD television and monitor chipsets, LCOS pico-projector solutions, power ICs, CMOS image sensors, and wafer level optics products. For example, in 2008, we formed strategic alliances with 3M to commercialize LCOS mobile projectors and with Wingtech Group to develop LCOS mobile projectors for the China market. We believe end products utilizing LCOS technology could potentially be a large market. LCOS technology, however, is at a relatively early stage of commercialization and has a relatively immature supply chain. Furthermore, producing LCOS products at acceptable yields has proven difficult. Therefore we cannot assure you that there will be market acceptance of these LCOS products, or that our strategic alliance with 3M or Wingtech Group will be successful.

Developing and commercializing each of our non-driver products requires a significant amount of management, engineering and monetary resources. Numerous uncertainties exist in developing new products and we cannot assure you that we will be able to develop our non-driver products successfully. The failure or delay in the development or commercialization of any of our non-driver products, the occurrence of any product defects or design flaws, or the low market acceptance of or demand for either our products or the end devices using our products may adversely affect our results of operations and growth prospects.

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

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

We face numerous challenges relating to our growth.

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

respond to competitive pressures. To successfully manage our growth, we believe we must effectively:

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

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

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

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

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

- our ability to accurately forecast shipments, average selling prices, cost of revenues, operating expenses, non-operating income/loss, foreign currency exchange rates, and tax rates;
- our ability to transfer any increase in unit costs to our customers;
- our ability to accurately perform various tests, estimations and projections, including with respect to the write-down on slow or obsolete inventories, the impairment of long-lived assets, the collectibility of accounts receivable, and the realizability of deferred tax assets;
- our ability to successfully design, develop and introduce in a timely manner new or enhanced products acceptable to our customers;
- changes in the relative mix in the unit shipments of our products, which may have significantly different average selling prices and cost of revenues as a percentage of revenues;
- changes in share-based compensation;
- the loss of one or more of our key customers;
- decreases in the average selling prices of our products;
- our accumulation and write-down of inventory;
- the relative unpredictability in the volume and timing of customer orders;

- shortages of other components used in the manufacture of TFT-LCD panels;
- the risk of cancellation or deferral of customer orders in anticipation of our new products or product enhancements, or due to a reduction in demand of our customers' end product;
- changes in our payment terms with our customers and our suppliers;
- our ability to negotiate favorable prices with customers and suppliers;
- our ability to hedge foreign exchange risks;

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

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

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

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

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

Chimei Innolux is one of our largest shareholders, beneficially owning approximately 14.0% of our outstanding shares as of April 30, 2010. Chimei Innolux is also our largest customer, with combined revenues in 2009 from sales to CMO, Innolux and TPO, together with their respective affiliates, accounting for approximately 67.5% of our revenues. Our engineers work closely with Chimei Innolux's engineers to design display drivers and other semiconductors used by Chimei Innolux and its affiliates or their customers. We have entered into various transactions with Chimei Innolux or CMO and its affiliates in the past, and we expect to continue to do so in the future. See "Item

7.B. Major Shareholders and Related Party Transactions—Related Party Transactions." If our relationship with Chimei Innolux deteriorates for any reason, our business could be materially and adversely affected.

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

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

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

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

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

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

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

- failure to secure necessary manufacturing capacity, or being able to obtain required capacity only at higher costs;
- risks of our proprietary information leaking to our competitors through the foundries we use;
- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs;
- the unavailability of, or potential delays in obtaining access to, key process technologies; and
- financial risks of certain of our foundry suppliers, including those that are owned by ailing dynamic random access memory, or DRAM, companies.

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

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

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

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

There are a limited number of companies which supply the processed tape used to manufacture our semiconductor products, and we do not have binding long-term supply arrangements with processed tape suppliers that would guarantee us access to processed tape. Therefore, from time to time, shortages of such processed tape may occur. Since the first quarter of 2010, the supply of processed tape has been tight and it is uncertain whether any shortage of processed tape may occur in the near future. If any of the processed tape suppliers we rely upon experience difficulties in delivering processed tape or are unable to meet the prices, quality or services that we require, or if our business relationships with these suppliers weaken or deteriorate, we may not be able to locate alternative sources in a timely manner. Therefore, if shortages of processed tape were to occur, or if the costs of manufacturing such tape increases, we would incur additional costs or be unable to ship our products to our customers in a timely fashion, all of which could harm our business and our customer relationships and negatively impact our earnings. As a result of these risks, we may also be required to use processed tape suppliers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of processed tape may necessitate us making investments in processed tape suppliers in order

to secure adequate supply, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

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

Access to third-party assembly and testing capacity is critical to our business because we do not have in-house assembly and testing capabilities for commercial production and instead rely on third-party service providers. Access to these services is especially important to our business because display drivers require specialized assembly and testing services. A limited number of third-party assembly and testing houses assemble and test substantially all of our current products. We do not have binding long-term supply arrangements with assembly and testing service providers that guarantee us access to our required capacity. Since the first quarter of 2010, assembly and testing capacity has been tight. If the primary assembly and testing service providers that we rely upon are not able to meet our requirements in price, quality, and service, or if our business relationships with these service providers were adversely affected, we would not be able to obtain the required capacity from such providers and would have to seek alternative providers, which may not be available on commercially reasonable terms, or at all. As a result, we do not directly control our product delivery schedules, assembly and testing costs and quality assurance and control. If any of these third-party assembly and testing houses experiences capacity constraints, financial difficulties, suffers any damage to its facilities or if there is any disruption of its assembly and testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner. Because of the amount of time we usually take to qualify assembly and testing houses, we may experience significant delays in product shipments if we are required to find alternative sources. Any problems that we may encounter with the delivery, quality or cost of our products could damage our reputation and result in a loss of customers and orders.

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

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

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

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

We rely upon the continued service and performance of a relatively small number of key personnel, including certain engineering, technical and senior management personnel. In particular, our engineers and other key technical personnel are critical to our future technological and product innovations. Competition for highly skilled engineers and other key technical personnel is intense in the semiconductor industry in general and in Taiwan's flat panel semiconductor industry in particular. Moreover, our future success depends on the expansion of our senior management team and the retention of key employees such as Jordan Wu, our president and chief executive officer; Dr. Biing-Seng Wu, our chairman; Chih-Chung Tsai, our chief technology officer; and Max Chan, our chief financial officer. We rely on these individuals to manage our company, develop and execute our business strategies

and manage our relationships with key suppliers and customers. Any of these employees could leave our company with little or no prior notice and would be free to work with a competitor. We do not have “key person” life insurance policies covering any of our employees. The loss of any of our key personnel or our inability to attract or retain qualified personnel, whether engineers and others, could delay the development and introduction of new products and would have an adverse effect on our ability to sell our products as well as on our overall business and growth prospects. We may also incur increased operating expenses and be required to divert the attention of other senior executives away from their original duties to recruiting replacements for key personnel.

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

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

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

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

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

A design win is not a binding commitment by a customer to purchase our products and may not result in large volume orders of our products. Rather, it is a decision by a customer to use our products in the design process of that customer’s products. Customers can choose at any time to stop using our products in their designs or product

development efforts. Moreover, even if our products were chosen to be incorporated into a customer's products, our ability to generate significant revenues from that customer would depend on the commercial success of those products. Thus, a design win may not necessarily generate significant revenues if our customers' products are not commercially successful.

Some of our semiconductor products are manufactured at only one foundry. If any foundry is unable to provide the capacity we need, does not deliver in a timely manner or the quality or pricing terms are not

acceptable to us, we may experience delays in shipping our products or have to incur additional costs, which could damage our customer relationships and result in reduced revenues and higher costs and expenses.

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

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

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

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

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

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

The ability to manufacture products of acceptable quality depends on both product design and manufacturing process technology. Defective products can be caused by design, defective materials or component parts, or manufacturing difficulties. Thus, quality problems can be identified only by analyzing and testing our display drivers in a system after they have been manufactured. The difficulty in identifying defects is compounded by the uniqueness of the process technology used in each of the semiconductor foundries with which we have subcontracted to manufacture our products. Difficulties in achieving defect-free products due to the increasing complexity of display drivers and the

panel system surrounding them may result in an increase in our costs and expenses and delays in the availability of our products. In addition, if the foundries that we use fail to deliver products of satisfactory quality in the volume and at the price required, we will be unable to meet our customers' demand for our products or to sell those products at an acceptable profit margin, which could adversely affect our sales and margins and damage our customer relationships and our reputation.

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

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

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

We have a close relationship with Chimei Innolux, which is the surviving entity following the completion of the merger of CMO, Innolux, and TPO on March 18, 2010. Chimei Innolux is currently one of our largest shareholders. Chimei Innolux or, prior to the merger, CMO has also been our largest customer since our inception. In addition, certain of our directors held key management positions at CMO prior to the merger. Jung-Chun Lin, our director, served as senior vice president of finance and administration at CMO. Dr. Biing-Seng Wu, our chairman, was also the vice chairman of the board of directors of CMO. We cannot assure you that our close relationship with Chimei Innolux and the resulting potential conflicts of interest will not affect our sales decisions or allocations or that potential conflicts of interest with respect to Chimei Innolux will be resolved in our favor.

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

As of April 30, 2010, Jordan Wu and Dr. Biing-Seng Wu (who are brothers) beneficially owned approximately 7.2% and 19.0% of our ordinary shares, respectively, and Chimei Innolux beneficially owned approximately 14.0% of our ordinary shares. For information relating to the beneficial ownership of our ordinary shares, see "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." These shareholders, acting together, could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. Actions may be taken even if they were opposed by our other shareholders.

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

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which results in protracted and expensive litigation for many companies. We have received, and expect to continue to receive, notices of infringement of third-party intellectual property rights. We may receive claims from various industry participants alleging infringement of their patents, trade secrets or other intellectual property rights in the future. Any lawsuit resulting from such allegations could subject us to significant liability for damages and

invalidate our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology or manufacturing processes that contain the allegedly infringing intellectual property;
- pay damages to the party claiming infringement;

- attempt to obtain a license for the relevant intellectual property, which may not be available on commercially reasonable terms or at all; and

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

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

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

We believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely primarily on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain, copy or use information that we regard as proprietary, such as product design and manufacturing process expertise. As of May 31, 2010, we and our subsidiaries had 640 U.S. patent applications pending, 846 Taiwan patent applications pending and 549 patent applications pending in other jurisdictions, including the PRC, Japan, Korea and Europe. Our pending patent applications and any future applications may not result in issued patents or may not be sufficiently broad to protect our proprietary technologies. Moreover, policing any unauthorized use of our products is difficult and costly, and we cannot be certain that the measures which we have implemented will prevent misappropriation or unauthorized use of our technologies, particularly in foreign jurisdictions where the laws may not protect our proprietary rights as fully as the laws of the United States do. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to protect our intellectual property effectively could harm our business.

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

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

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

As part of our growth and product diversification strategy, we will continue to evaluate opportunities to acquire or invest in other businesses, intellectual property or technologies that would complement our current offerings, expand the breadth of markets we can address or enhance our technical capabilities. For example, on February 1, 2007, we

acquired Wisepal Technologies, Inc., or Wisepal (which was renamed in February 2010 as Himax Semiconductor, Inc., or Himax Semiconductor), a fabless design company located in Taiwan that specializes in LTPS TFT-LCD drivers for small and medium-sized panels. Under the terms of the acquisition, we issued one ordinary share in exchange for 5.26 shares of Wisepal and we assumed all of the assets, liabilities and personnel of Wisepal. Acquisitions or investments that we have completed or potentially may make in the future, including our acquisition of Wisepal, entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

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

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

Risks Relating to Our Industry

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

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

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

The semiconductor industry, in particular semiconductors used in flat panel displays, is highly competitive. Increased competition may result in pricing pressure, reduced profitability and loss of market share, any of which could seriously harm our revenues and results of operations. Competition principally occurs at the design stage, where a customer evaluates alternative design solutions that require display drivers. We continually face intense competition from fabless display driver companies as well as from integrated device manufacturers. Some of our competitors have substantially greater financial and other resources than we do with which to pursue engineering,

manufacturing, marketing and distribution of their products. As a result, they may be able to respond more quickly to changing customer demands or devote greater resources to the development, promotion and sales of their products than we can. Some of our competitors have manufacturing capabilities as well as in-house design operations that may give them significant advantages such as more research and development resources and the ability to attract highly skilled engineers. Furthermore, some of our competitors are affiliated with, or are subsidiaries of, our panel manufacturer customers. These relationships may also give our competitors significant advantages such as early access to product roadmaps and design-in priorities, which would allow them to respond more quickly to changing customer demands and achieve more design-wins than we can. In addition, even competitors with no such strategic associations with panel manufacturers may resort to price competition to maintain their market share, which may impose pricing pressures on us, reduce our profitability or decrease our market share. We cannot assure you that we will be able to increase or maintain our revenues and market share, or compete successfully against our current or future competitors in the semiconductor industry.

We may be adversely affected by the cyclicality of the semiconductor industry.

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

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

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

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

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

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

Risks Relating to Our Holding Company Structure

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

We are a holding company and our assets consist mainly of our 100% ownership interest in Himax Taiwan. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. Nonetheless, dividends and interest on shareholder loans that we receive from our subsidiaries in Taiwan, if any, will be subject to withholding tax under ROC law. The ability of our subsidiaries to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us is restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. In addition, while we have registered with the Central Bank of the ROC (Taiwan), or the Central Bank of ROC, for outward/inward remittance that would allow our subsidiaries located in Taiwan to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us, we cannot assure you that the relevant regulations will not change and that the ability of our subsidiaries to do so will not be restricted in the future. A Taiwan company is generally not permitted to distribute dividends or to make any other distributions to shareholders for any year in which it did not have either earnings or retained earnings (excluding reserves). In addition, before distributing a dividend to shareholders following the end of a fiscal year, the company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve.

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

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

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

Political, Geographical and Economic Risks

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

Most of our operations, and the operations of many of our semiconductor manufacturing service providers, suppliers and customers are located in Taiwan, which is vulnerable to natural disasters, in particular, earthquakes and typhoons. Our principal foundries and assembly and testing houses upon which we have relied to manufacture substantially all of our display drivers are located in Taiwan. In 2009, 79.2% of our revenues were derived from customers headquartered in Taiwan. As a result of this geographic concentration, disruption of operations at our facilities or the facilities of our semiconductor manufacturing service providers, suppliers and customers for any reason, including

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

The manufacturing processes of TFT-LCD panels require a substantial amount of water and, as a result, the production operations of TFT-LCD panels may be seriously disrupted by water shortages. Our customers may

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

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

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

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

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

Our functional and reporting currency is U.S. dollars. In 2009, more than 99.0% of our revenues and cost of revenues were denominated in U.S. dollars. However, we have foreign currency exposure and are primarily affected by fluctuations in exchange rates between the U.S. dollar and the NT dollar. This is because a significant portion of our operating expenses (including for research and development, general and administrative, and sales and marketing expenses) are denominated in NT dollars and we maintain a portion of our cash in NT dollars for local working capital purposes. For example, in December 2009, approximately 45.9% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder in U.S. dollars. Moreover, there are tax-related assets and liabilities on our balance sheet which are denominated in NT dollars. The current global economic crisis may cause increased volatility in exchange rates. From time to time, we enter into forward contracts to hedge our foreign currency exposure, but we cannot assure you that this will adequately protect us against the risk of exchange rate fluctuations and reduce the impact of potential foreign exchange losses. Any significant fluctuation to our disadvantage in exchange rates would have an adverse effect on our results of operations and financial condition.

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

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

expenses. The balance of unused investment tax credits totaled $32.7 million, $46.8 million and $55.3 million as of December 31, 2007, 2008 and 2009, respectively. On May 12, 2010, the Industrial Innovation Act was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. Compared to the ROC Statute for Upgrading Industries, the Industrial Innovation Act provides for a smaller amount of tax credits. The Industrial Innovation Act entitles companies to tax credits for research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total research and development expenditure for the current year,

subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Industrial Innovation Act may not be carried forward. As a result, beginning in 2010, we expect to have a smaller amount of tax credits under the Industrial Innovation Act than would have been available under the ROC Statute for Upgrading Industries.

In addition, unlike the ROC Statute for Upgrading Industries, the Industrial Innovation Act no longer provides to companies deemed to be operating in important or strategic industries any tax exemption for income attributable to expanded production capacity or newly developed technologies. Pursuant to the ROC Statute for Upgrading Industries, beginning April 1, 2004, January 1, 2006 and January 1, 2008, Himax Taiwan became entitled to three preferential tax treatments, each for a period of five years, which expired or will expire on March 31, 2009, December 31, 2010 and December 31, 2012, respectively, and beginning January 1, 2009, Himax Semiconductor also became entitled to one preferential tax treatment for a period of five years, which will expire on December 31, 2013. As a result of these preferential tax treatments, income attributable to certain of our expanded production capacity or newly developed technologies has been tax exempt for the relevant periods. Based on the ROC statutory income tax rate of 25%, the effect of such tax exemption under the ROC Statute for Upgrading Industries was an increase on net income and basic and diluted earnings per share attributable to our stockholders of $27.1 million, $0.07 and $0.07, respectively, for the year ended December 31, 2007, $25.2 million, $0.07 and $0.07, respectively, for the year ended December 31, 2008, and $9.4 million, $0.03 and $0.03, respectively, for the year ended December 31, 2009. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we can continue to enjoy the five-year tax holiday since the relevant investment plans were approved by the ROC tax authority before the expiration of the Statute. However, as the tax exemption that expired on March 31, 2009 and the tax exemption that is scheduled to expire on December 31, 2010 account for a substantial portion of our total tax-exempted income under the ROC Statute for Upgrading Industries, our income tax expenses increased significantly in 2009 and may continue to increase significantly in the future.

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

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

Risks Relating to Our ADSs and Our Trading Market

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

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

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

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

The market price for our ADSs is volatile.

The market price for our ADSs is volatile and has ranged from a low of $1.32 to a high of $3.97 on the Nasdaq Global Select Market in 2009. The market price is subject to wide fluctuations in response to various factors, including the following:

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

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

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

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of April 30, 2010, we had 355,531,454 outstanding shares and a significant number of our shares were beneficially owned by certain major shareholders, including our directors and executive officers. See "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." If we, our executive officers, directors or our shareholders sell ADSs or shares, the market price for our shares or ADSs could decline. Future sales, or the perception of future sales, of ADSs or shares by us, our executive officers, directors or existing shareholders could cause the market price of our ADSs to decline.

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

We are currently only listed in the U.S. Investor interest in us may not be as strong as in U.S. companies or Taiwan companies that are listed in Taiwan both because we may not be adequately covered by securities research analyst reports and because of the lack of investor materials in the Chinese language. The lack of coverage could negatively impact investor interest and the level of trading in our ADSs. The interest of both existing and prospective Taiwan-based investors to hold and trade in our ADSs may be impacted by the lack of investor materials in the Chinese language and the time difference between New York and Taiwan. As a result, the liquidity of our ADSs and the valuation multiples may be lower than if we were listed on the Taiwan Stock Exchange.

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

Although our ADSs are traded on the Nasdaq Global Select Market, the trading volume of our ADSs has generally been very low. Reported average daily trading volume in our ADSs was approximately 268,269 ADSs for the four months ended April 30, 2010 compared to approximately 529,478 ADSs for the year ended December 31, 2009. In addition, during the periods between November 8, 2007 and July 31, 2008 and between November 17, 2008 and May 25, 2010, we repurchased a total of approximately $33.1 million of our ADSs (approximately 7.7 million ADSs) and a total of approximately $45.2 million of our ADSs (approximately 17.5 million ADSs), respectively, from the open market pursuant to two authorized share buyback programs. The repurchased ADSs and their underlying ordinary shares with respect to these two periods reduced the number of our ordinary shares otherwise outstanding by approximately 7.9% for the first program and approximately 9.1% for the second program. Such share buyback programs or future share repurchases could negatively impact the average trading volume of our ADSs. Limited trading volume will subject our ADSs to greater price volatility and may make it difficult for you to buy or sell your ADSs at a price that is attractive to you.

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

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

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

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

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

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

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

Rule 5605 of the Marketplace Rules of the Nasdaq Stock Market LLC, or the Nasdaq Rules, requires listed companies to have, among others, a board of directors comprised of a majority of independent directors, the holding of regularly scheduled meetings at which only independent directors are present, a compensation committee, if any,

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

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

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

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

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

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

under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities law than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

For example, the Cayman Islands Companies Law differs from laws applicable to United States corporations and their shareholders in certain material respects which may affect shareholders' rights and shareholders' access to

information. These differences under the Cayman Islands Companies Law (as compared to Delaware law) include, though are not limited to, the following:

- directors who are interested in a transaction do not have a statutory duty to disclose such interest and there are no provisions under the Cayman Islands Companies Law which render such director liable to the company for any profit realized pursuant to such transaction. Our articles of association, however, contain provisions that require our directors to disclose their interest in a transaction;

- dissenting shareholders do not have comparable appraisal rights if a scheme of arrangement is approved by the Grand Court of the Cayman Islands;

- shareholders may not be able to bring class action or derivative action suits before a Cayman Islands court except in certain exceptional circumstances; and

- unless otherwise provided under the memorandum and articles of association of the company, shareholders do not have the right to bring business before a meeting or call a meeting.

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

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

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

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

and other requirements of the Sarbanes-Oxley Act.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Himax Taiwan, our predecessor, was incorporated on June 12, 2001 as a limited liability company under the laws of the ROC. On April 26, 2005, we established Himax Technologies Limited, an exempted company with

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

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

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

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

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

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

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

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

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

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

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

4.B. Business Overview

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

Industry Background

We operate in the flat panel display semiconductor industry. As our semiconductors are critical components of flat panel displays, our industry is closely linked to the trends and developments of the flat panel display industry.

Flat Panel Display Semiconductors

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

- Display Driver. The display driver receives image data from the timing controller and delivers precise analog voltages or currents to create images on the display. The two main types of display drivers for a TFT-LCD panel are gate drivers and source drivers. Gate drivers turn on the transistor within each pixel cell on the horizontal line on the panel for data input at each row. Source drivers receive image data from the timing controller and generate voltage that is applied to the liquid crystal within each pixel cell on the vertical line on the panel for data input at each column. The combination determines the colors generated by each pixel. Typically multiple gate drivers and source drivers are installed separately on the panel. However, for certain small and medium-sized applications, gate drivers and source drivers are integrated into a single chip due to space and cost considerations. Large-sized panels typically have higher resolution and require more display drivers than small and medium-sized panels.

- Timing Controller. The timing controller receives image data and converts the format for the source drivers' input. The timing controller also generates controlling signals for gate and source drivers. Typically, the timing controller is a discrete semiconductor in large-sized TFT-LCD panels. For certain small and medium-sized applications, however, the timing controller may be integrated with display drivers.

- Scaler. For certain displays, a scaler is installed to magnify or shrink image data in order for the image to fill the panel.

- Operational Amplifier. An operational amplifier supplies the reference voltage to source drivers in order to make their output voltage uniform.

· Television Chipset. Television flat panel displays require chipsets that typically contain all or some of the following components: an audio processor, analog interfaces, digital interfaces, a video processor, a channel receiver and a digital television decoder. See "—Products—TFT-LCD Television and Monitor

Semiconductor Solutions—TFT-LCD Television and Monitor Chipsets" for a description of these components.

- LCOS microdisplay. LCOS is a microprojection technology which can be applied in mobile projection devices.
- Power IC. Power ICs include certain drivers, amplifiers, DC to DC converters and other semiconductors designed to enhance power management, such as voltage regulation, voltage boosting and battery management.
- CMOS Image Sensor. The CMOS image sensor converts an optical image to an electric signal and is used mostly in camera-equipped applications.
- Wafer level optics products. Wafer level optics are optical products manufactured using semiconductor process on glass wafers. This innovative approach enables wafer level optics to feature small-form factor and high temperature resistance, making the surface-mount technology, or SMT, reflow process possible.
- Others. Flat panel displays also require multiple general purpose semiconductors such as memory, power converters and inverters.

Characteristics of the Display Driver Market

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

Concentration of Panel Manufacturers

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

Customization Requirements

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

Mixed-Signal Design and High-Voltage CMOS Process Technology

Display drivers have specific design and manufacturing requirements that are not standard in the semiconductor industry. Some display drivers require mixed-signal design since they combine both analog and digital devices on a single semiconductor to process both analog signals and digital data. Manufacturing display drivers requires high-voltage CMOS process technology operating typically at 4.5 to 24 volts for source drivers and 10 to 50 volts for

gate drivers, levels of voltage which are not standard in the semiconductor industry. For display drivers, the driving voltage must be maintained under a very high degree of uniformity, which can be difficult to achieve using standard CMOS process technology. However, manufacturing display drivers does not require very small-geometry semiconductor processes. Typically, the manufacturing process for large panel display drivers requires geometries between 0.13 micron and 1 micron because the physical dimensions of a high-voltage device do not allow for the

economical reduction in geometries below this range. We believe that there are a limited number of fabs with high-voltage CMOS process technology that are capable of high-volume manufacturing of display drivers.

Special Assembly and Testing Requirements

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

Supply Chain Management

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

Need for Higher Level of Integration

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

Products

We have six principal product lines:

- display drivers and timing controllers;
- TFT-LCD television and monitor semiconductor solutions;

- LCOS products;
- power ICs;
- CMOS image sensors; and
- wafer level optics products.

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

Display Drivers and Timing Controllers

Display Driver Characteristics

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

- Resolution and Number of Channels. Resolution refers to the number of pixels per line multiplied by the number of lines, which determines the level of fine detail within an image displayed on a panel. For example, a color display screen with 1,024 x 768 pixels has 1,024 red columns, 1,024 green columns and 1,024 blue columns for a total of 3,072 columns and 768 rows. The red, green and blue columns are commonly referred to as “RGB.” Therefore, the display drivers need to drive 3,072 column outputs and 768 row outputs. The number of display drivers required for each panel depends on the resolution of the panel and the number of channels per display driver. For example, an XGA (1,024 x 768 pixels) panel requires eight 384 channel source drivers (1,024 x 3 = 384 x 8) and three 256 channel gate drivers (768 = 256 x 3), while a full HD (1,920 x 1,080 pixels) panel requires eight 720 channel source drivers and four 270 channel gate drivers. The number of display drivers required can be reduced by using drivers with a higher number of channels. For example, a full HD panel can have six 960 channel source drivers instead of eight 720 channel source drivers. Thus, using display drivers with a higher number of channels can reduce the number of display drivers required for each panel, although display drivers with a higher number of channels typically have higher unit costs.

- Color Depth. Color depth is the number of colors that can be displayed on a screen, which is determined by the number of shades of a color, also known as grayscale, that can be shown by the panel. For example, a 6-bit source driver is capable of generating 26 x 26 x 26 = 218, or 262K colors, and similarly, an 8-bit source driver is capable of generating 16 million colors. Typically, for TFT-LCD panels currently in commercial production, 262K, 16 million and 1 billion colors are supported by 6-bit, 8-bit and 10-bit source drivers, respectively.

- Operational Voltage. A display driver operates with two voltages: the input voltage (which enables it to receive signals from the timing controller) and the output voltage (which, in the case of source drivers, is applied to liquid crystals and, in the case of gate drivers, is used to switch on the TFT device). Source drivers typically operate at

input voltages from 4.5 to 1.5 volts and output voltages between 4.5 to 24 volts. Gate drivers typically operate at input voltages from 3.3 to 1.5 volts and output voltages from 10 to 50 volts. Lower input voltage saves power and lowers electromagnetic interference, or EMI. Output voltage may be higher or lower depending on the characteristics of the liquid crystal (or diode), in the case of source drivers, or TFT device, in the case of gate drivers.

- Gamma Curve. The relationship between the light passing through a pixel and the voltage applied to it by the source driver is nonlinear and is referred to as the “gamma curve” of the source driver. Different panel designs and manufacturing processes require source drivers with different gamma curves. Display drivers need to adjust the gamma curve to fit the pixel design. Due to the materials and processes used in manufacturing, panels may contain certain imperfections which can be corrected by the gamma curve of the source driver, a process which is generally known as “gamma correction.” For certain types of liquid crystal, the gamma curves for RGB cells are significantly different and thus need to be independently corrected. Some advanced display drivers feature three independent gamma curves for RGB cells.

- Driver Interface. Driver interface refers to the connection between the timing controller and display drivers. Display drivers increasingly require higher bandwidth interface technology to address the larger data volume necessary for video images. Panels used for higher data transmission applications such as televisions require more advanced interface technology. The principal types of interface technologies are transistor-to-transistor logic, or TTL, reduced swing differential signaling, or RSDS, and mini-low voltage differential signaling, or mini-LVDS. Among these, RSDS and mini-LVDS were developed as low power, low noise and low amplitude methods for high-speed data transmission using fewer copper wires and resulting in lower EMI.

- Package Type. The assembly of display drivers typically uses TAB and COG package types. COF and TCP are two types of TAB packages, of which COF packages have become predominantly used in recent years. Customers typically determine the package type required according to their specific mechanical and electrical considerations. In general, display drivers for small-sized panels use COG package type whereas display drivers for large-sized panels primarily use TAB package types and, to a lesser extent, COG package types.

Large-Sized Applications

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

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

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

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

Product	Features
TFT-LCD Source Drivers	· 384 to 1,032 output channels · 6-bit (262K colors), 8-bit (16 million colors) or 10-bit (1 billion colors) · one gamma-type driver ·

three gamma-type drivers (RGB independent gamma curve to enhance color image)

- output driver voltage ranging from 4.5V to 24V and support half VDDA
- input logic voltage ranging from standard 3.3V to low power 1.5V
- low power consumption and low EMI

Product	Features
	· support TCP, COF and COG package types · support TTL, RSDS, mini-LVDS (up to 330MHz), dual edge transistor-to-transistor logic, or DETTL, turbo RSDS, cascade modulated driver interface, or CMDI, and customized interface technologies · support dual gate and triple gate panel designs
TFT-LCD Gate Drivers	· 192 to 600 output channels · output driving voltage ranging from 10 to 50V · input logic voltage ranging from standard 3.3V to low power 1.5V · low power consumption · support TCP, COF and COG package types · support dual gate and triple gate panel designs
Timing Controllers	· product portfolio supports a wide range of resolutions, from VGA (640 x 480 pixels) to full HD (1,920 x 1,080 pixels and 1,920 x 1,200 pixels) · support TTL, RSDS, mini-LVDS, DETTL, turbo RSDS, CMDI and customized output interface technologies · input logic voltage ranging from standard 3.3V to low power 1.5V · embedded overdrive function to improve response time · support CABC to save power and color engine to enhance color and sharpness · support TTL, LVDS and DisplayPort input interface technologies

Mobile Handset Applications

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

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

With new software platforms providing better access to the Internet, smartphones have gained greater popularity among consumers and enjoyed higher growth in recent years. This has also contributed to higher demand for mobile handset displays that have a larger size and higher resolution. We continue to offer innovative handset display driver products by providing one of the leading amorphous silicon WVGA (480 x 864 pixels) display drivers in the market.

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

Product	Features
TFT-LCD Drivers	·

highly integrated single chip embedded with the source driver, gate driver, power circuit, timing controller and memory

- suitable for a wide range of resolutions from QQVGA (128 x 160 pixels) to WVGA (480 x 864 pixels)
- support 262K colors to 16 million colors

	· support RGB separated gamma adjustment · support CABC · support mobile display digital interface, or MDDI, and mobile industry processor interface, or MIPI · input logic voltage ranging from standard 3.3V to low power 1.65V · low power consumption and low EMI · utilize die shrink technology to reduce die size and cost · fewer external components to reduce costs · slimmer die for compact module to fit smaller mobile handset designs · application specific integrated circuits, or ASIC, can be designed to meet customized requirements (e.g., drivers without memory or drivers without gate driver embedded on the chip)
LTPS Drivers	· highly integrated single chip embedded with the source driver, power circuit, timing controller and memory · suitable for a wide range of resolutions from QQVGA (128 x 160 pixels) to WVGA (480 x 864 pixels) · support 262K colors to 16 million colors · support RGB separated gamma adjustment · support CABC · support compact display port, or CDP, MDDI, and MIPI · input logic voltage ranging from standard 3.3V to low power 1.65V · utilize die shrink technology to reduce die size and cost · slimmer die for compact module · ASIC can be designed to meet customized requirements (e.g., gateless or multi-bank output driver)

Consumer Electronics Products

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

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

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

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

Product	Features

TFT-LCD Source Drivers	· 240 to 1366 output channels · products for analog and digital interfaces · support 262K colors to 16.7 million colors · input logic voltage ranging from standard 3.3V to low power 2.3V · low power consumption and low EMI
TFT-LCD Gate Drivers	· 96 to 1200 output channels

Product	Features
TFT-LCD Integrated Drivers	· input logic voltage ranging from standard 3.3V to low power 2.3V · output driving voltage ranging from 10 to 40V · highly integrated single chip embedded with source driver, gate driver, timing controller and power circuit · resolutions include WVGA (846 x 480 pixels), SVGA (800 x 600 pixels) and WSVGA (1,024 x 600 pixels) · products for analog or digital interfaces · low power consumption · CABC function integrated for backlight power saving
Timing Controllers	· products for analog or digital interfaces · products for E-readers · support various resolutions from 280 x 220 pixels to 1024 x 600 pixels

TFT-LCD Television and Monitor Semiconductor Solutions

Himax Media Solutions, our subsidiary, provides TFT-LCD television and monitor semiconductor solutions. Set forth below are the various semiconductor components that may be utilized in flat-panel digital and analog televisions:

TFT-LCD Television and Monitor Chipsets

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

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

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

The following table summarizes the features of our video processors:

Product	Features
Analog TV Single-Chip Solutions	· ideal for LCD TV, multi-function monitor TV and LCOS applications · integrated with high performance ADC, scaler and de-interlacer · built-in HDMI and DVI receiver · integrated with video decoder and 3D comb filter to support worldwide National Television System Committee, or NTSC, phase alternating line, or PAL, and sequential color with memory, or SECAM, standards · integrated with vertical blanking interval slicer for closed caption, viewer-control chip and teletext functions · built-in Himax 4th generation video engine which supports variable dynamic video enhancement features · built-in analog audio demodulator, audio processor and surround integrated high speed microprocessor control unit, or MCU · integrated with timing control for additional cost-down · output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixels
Digital TV Integrated Solutions	· embedded digital demodulators: ATSC, DVB-T, DVB-C, and DVMB · embedded analog demodulator: picture intermediate frequency for NTSC, PAL and SECAM

- embedded multi-format video stream decoder: MPEG2, MPEG4, AVS, Real Video and H.264 up to full HD
- embedded audio stream decoder: MPEG1 I/II/III and MPEG2 layer 2 I/II/III, Dolby audio coding 3, Dolby Digital Plus, advanced audio coding and Real Audio

Product	Features
	· embedded audio processor: sound retrieval system · embedded high performance RISC CPU · embedded 3D video processor · input resolution up to full HD (1,920 x 1,080 pixels) · output resolution up to full HD (1,920 x 1,080 pixels)

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

Product	Features
Monitor Scaler Integrated Solutions	· ideal for monitor applications · integrated with high performance ADC, scaler and de-interlancer · built-in HDMI and DVI receiver · built-in audio digital-to-analog converter · built-in high performance color engine · integrated high speed MCU · integrated with timing control for additional cost-down · input/output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixels

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

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

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

Product	Features
Power-Saving iCT Solutions	· built-in single/dual path 8/10-bit LVDS receiver · support up to 1920x1080@75HZ resolution · built-in single/dual path 6/8-bit RSDS transmitter for low power consumption and low EMI · built-in single/dual 8/10-bit LVDS transmitter · built-in single/dual 6/8-bit 3/6-pair mini-LVDS transmitter · support polarity 1 or 1+2 line inversion mode and dual-gate/Z-inversion panel structure · embedded aging generator for simplifying TFT-LCD panel dynamic burn-in test · support low color shift, initial download from electrically-erasable programmable read-only memory, or EEPROM

- support serial bus programming from scaler to select up to 4 different initial download value settings (depend on the size of EEPROM)
- embedded 3D color engine, 10-bit gamma correction look-up table
- programmable sRGB matrix coefficients

Product	Features
	· embedded dynamic analog gamma control, dynamic exposure adaptation control, CABC and over drive · support up to external 20+1-channel gamma buffer with 10-bit resolution control by 2-wire serial bus
2D to 3D Conversion Solutions	· convert 2D video sequence to 3D video sequence for 3D display · enable virtual 3D experience on 2D display based on human 3D perception characteristics · use human perception based processing with better performance and fewer side effects · support 2D bypass mode, 2D to 3D converter mode and 3D bypass mode · support a wide range of display formatting and interface, including LVDS and TTL · support anaglyph, pattern retarder or micro-retarder and CheckerBoard 2-view 3D display · configurable stereoscopic density; support in-front-of-screen, behind-the-screen and on-the-screen configurations · support resolutions up to full HD · enable integration into existing TV, monitor, portable DVD, digital photo frame and other 3D display devices · support top-and-bottom, frame packing, side-by-side (full) and side-by-side (half) 3D formats · support dual LVDS, front/back quad LVDS, non-front/back quad LVDS and left/right parallel quad LVDS for output format · support 8-bit/10-bit LVDS for both input and output formats

LCOS Products

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

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

LCOS Microdisplays	Size and Resolution	Applications
Color-Filter LCOS Microdisplays	· 0.28" (320 x 240 pixels) · 0.38" (640 x 360 pixels)	· toy projectors / embedded projectors · entry-level video projectors

	· 0.44” (640 x 480 pixels)	· versatile projectors
	· 0.59” (800 x 600 pixels)	· multimedia projectors
Color-Sequential LCOS Microdisplays	· 0.22” (640 x 360 pixels)	· toy projectors / embedded projectors
	· 0.28” (852 x 480 pixels)	· embedded projectors
	· 0.38” (640 x 480 pixels)	· versatile projectors

LCOS Microdisplays	Size and Resolution	Applications
	· 0.37” (800 x 600 pixels)	· multimedia projectors
	· 0.37” (1366 x 768 pixels)	· multimedia projectors
	· 0.45” (1024 x 768 pixels)	· multimedia projectors

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

Power ICs

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

Power Management ICs

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

Product	Features
Integrated Multi-Channel Power Solutions for Notebooks	· 2.5V to 5.5V input voltage range
	· 16V, 2A power metal oxide semiconductor field-effect transistor, or MOSFET
	· step-up PWM converter
	· charge pump regulator
	· LDO regulator
	· voltage detector
	· gate pulse modulator
Integrated Multi-Channel Power Solutions for Monitors	· 2.5V to 6V input voltage range
	· 20V, 4.2A power MOSFET
	· step-up PWM converter
	· charge pump regulator
	· programmable common voltage
	· level shifter

LED Drivers

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

are the core functional blocks of a white LED driver.

Product	Features
WLED Drivers for NB	· 4.5V to 24V input voltage range · built-in 1.3MHz step-up PWM converter (max. boost voltage: 40V) · 8 constant current source channels · capable of driving up to 11 LEDs in serial for each channel

Product	Features
WLED Drivers for LED TV	· 8V to 40V input voltage range · 8-channel current sinks · Up to 80mA per channel · 65V sustainable voltage for LED pins

CMOS Image Sensor Products

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

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

Product	Features
3.4MP UltraBrightTM Color Image Sensor	· 1/4” format color type · QXGA resolution at 15 frames per second, support for 720p HD and D1 resolution at 30 frames per second · ClearVisionTM 80dB enhanced dynamic range mode compatible with standard color processing · on-chip 4-channel lens correction, defect removal
2.0MP UltraBrightTM Color Image Sensor	· 1/5” format color type · UXGA resolution at 18 frames per second, 720p HD resolution at 30 frames per second · on-chip 4-channel lens correction, defect removal · low noise, low power consumption
1.3MP BrightSenseTM System on Chip	· 1/6” format color type · SXGA resolution at 20 frames per second, 720p HD resolution at 30 frames per second · color processing pipeline with dynamic adjustments based on luminance and light color temperature · low noise, low power consumption
VGA UltraBrightTM System on Chip	· 1/10” format color type · VGA YUV output at 30 frames per second, QVGA at 60 frames per second · color processing pipeline including lens correction, defect correction, color de-mosaic, color correction, gamma control, saturation/hue adjustment, edge enhancement

- automatic low light and frame rate control
- multiple video formats including YUV422, RGB565, and ITU656

41

Wafer Level Optics Products

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

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

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

Product	Features
VGA 1 element wafer level lens	· For 1/10” VGA CIS (2.2~2.25μm pixel pitch) · One-element and two-surface design for cost-competitive market · Double-side manufacture process · Already in mass production
VGA 2 elements wafer level lens	· For 1/10” VGA CIS (2.2~2.25μm pixel pitch) · Two-element and four-surface design for high-performance requirement · Double-side manufacture process · Lower profile
2M 2 elements wafer level lens	· For 1/5” 2M CIS (1.75μm pixel pitch) · Two-element and four-surface design for cost-competitive market · Double-side manufacture process
2M 3 elements wafer level lens	· For 1/5” 2M CIS (1.75μm pixel pitch) · Three-element and six-surface design for high-performance requirement · Double-side manufacture process

Core Technologies and Know-How

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

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

using standard CMOS process technology.

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

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

Customers

Our customers for display drivers are primarily panel manufacturers and mobile device module manufacturers, who in turn design and market their products to manufacturers of end-use products such as notebook computers, desktop monitors, televisions, mobile handsets and consumer electronics products. As of December 31, 2009, we sold our products to more than 100 customers. In 2007, 2008 and 2009, CMO and its affiliates accounted for 58.8%, 62.5% and 64.3% of our revenues, respectively, and Samsung and its affiliates accounted for 3.7%, 6.5% and 7.2% of our revenues, respectively. We expect that sales to Chimei Innolux, as CMO's successor after its merger with Innolux and TPO, and Samsung and their respective affiliates, among other large customers, will continue to account for a substantial majority of our revenues in the near term.

Set forth below (in alphabetical order) are our ten largest customers (and their affiliates) based on revenues for the year ended December 31, 2009:

Chi Mei Optoelectronics Corp.
Chunghwa Picture Tubes, Ltd.
Funai Electric Co. Ltd.
HannStar Display Corporation
InfoVision Optoelectronics (Kunshan) CO., Ltd.
InnoLux Display Corporation
Perfect Display Limited
Samsung Electronics Taiwan Co., Ltd.
Taiwan Surface Mounting Technology Corp.
TPO Displays Corporation

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

Sales and Marketing

We focus our sales and marketing strategy on establishing business and technology relationships principally with TFT-LCD panel manufacturers and also with panel manufacturers using LTPS or OLED technologies and also with mobile display module and mobile handset manufacturers in order to work closely with them on future semiconductor solutions that align with their product road maps. Our engineers collaborate with our customers' engineers to create products that comply with their specifications and provide a high level of performance at competitive prices. Our end

market for large-sized panels is concentrated around a limited number of major panel manufacturers. We have also commenced marketing our products directly to monitor, notebook and mobile device manufacturers so that our products can be qualified for their specifications and designed into their products.

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

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

Manufacturing

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

We operate a small fab under Himax Display primarily for performing certain manufacturing processes for our LCOS microdisplays. In order to further meet customers' demand for higher quality, lower cost, and faster time-to-market, we have established an in-house color filter facility, which is scheduled to commence mass production in 2010. The color filter line is a critical and unique process for our proprietary single-panel color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our LCOS products and creates value for our customers. In addition, we have established an in-house wafer level optics facility, which commenced small-scale shipments in December 2009.

Manufacturing Stages

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

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

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

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

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

TAB Assembly

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

- Inner-Lead Bonding: The TCP and COF assembly process involves grinding the bumped wafers into their required thickness and cutting the wafers into individual dies, or chips. An inner lead bonder machine connects the chip to the printed circuit processed tape and the package is sealed with resin at high temperatures.

- Final Testing: The assembled display drivers are tested to ensure that they meet performance specifications. Testing takes place on specialized equipment using software customized for each product.

COG Assembly

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

Quality Assurance

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

In November 2002, we received ISO 9001 certification, which was renewed in February 2008 and will expire in February 2011. In February 2006, we received ISO 14001:2004 certification, which was renewed in February 2009 and will expire in February 2012. In addition, in March 2007, we received IECQ QC 080000 certification, which was renewed in March 2010 and will expire in March 2013, and OHSAS 18001:2007 certification, which was renewed in February 2009 and will expire in February 2012.

Semiconductor Manufacturing Service Providers and Suppliers

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

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

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

manufacturing service providers for a substantial portion of our manufacturing requirements in the near future.

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

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

Gold Bumping

Chipbond Technology Corporation(1)
Chipmore International Trading Company Limited
Chipmore Technology Co., Ltd.
ChipMOS Technologies Inc.
Siliconware Precision Industries Co., Ltd.

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

Assembly and Testing
Ardentec Corporation
Chipbond Technology Corporation(1)
Chipmore International Trading Company Limited
Chipmore Technology Co., Ltd.
ChipMOS Technologies Inc.
Global Testing Corporation
Greatek Electronics Inc.
King Yuan Electronics Co., Ltd.
Siliconware Precision Industries Co., Ltd.
Taiwan IC Packaging Corporation

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

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

Intellectual Property

As of May 31, 2010, we held a total of 645 patents, including 260 in Taiwan, 230 in the United States, 131 in China, 15 in Korea and 9 in Japan. The expiration dates of our patents range from 2019 to 2029. We also have a total of 846 pending patent applications in Taiwan, 640 in the United States and 549 in other jurisdictions, including the PRC, Japan, Korea and Europe. In addition, we have registered “Himax” and our logo as a trademark and service mark in Taiwan, China, Europe, Singapore, Korea and Japan and the United States.

Competition

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

- customer relations;

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

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

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

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

For LCOS products, we face competition primarily from digital lighting processing, or DLP, projectors incorporating Texas Instruments Incorporated’s digital light processing technology. We also face competition from a few other mobile projector technologies, including Micron Technology (which acquired Displaytech Inc. in 2009 for its color-sequential ferroelectric liquid crystal on silicon, or FLCOS, projectors), Syndiant Inc., and Microvision, Inc., a company providing laser-scanning projector solutions.

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

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

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

Insurance

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

Environmental Matters

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

4.C. Organizational Structure

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries and affiliates as of May 31, 2010.

The following table sets forth summary information for our subsidiaries as of May 31, 2010.

Subsidiary	Main Activities	Jurisdiction of Incorporation	Total Paid-in Capital $ (in millions)	Percentage of Our Ownership Interest
Himax Technologies Limited	IC design and sales	ROC	83.7	100.0%
Himax Technologies Anyang Limited	Sales	South Korea	0.5	100.0%
Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.)	IC design and sales	ROC	11.4	100.0%
Himax Technologies (Samoa), Inc.	Investments	Samoa	2.5	100.0% (1)
Himax Technologies (Suzhou) Co., Ltd.	Sales	PRC	1.0	100.0% (2)
Himax Technologies (Shenzhen) Co., Ltd.	Sales	PRC	1.5	100.0% (2)
Himax Display, Inc.	IC design, manufacturing and sales	ROC	39.1	88.2% (1)
Integrated Microdisplays Limited	IC design and sales	Hong Kong	1.1	88.2% (3)
Himax Analogic, Inc.	IC design and sales	ROC	13.3	76.9% (1)
Himax Imaging, Inc.	Investments	Cayman Islands	17.5	94.8%
Himax Imaging, Ltd.	IC design and sales	ROC	9.6	94.8% (4)
Himax Imaging Corp.	IC design and sales	California, USA	8.2	94.8% (4)
Argo Limited	Investments	Cayman Islands	9.0	100.0%
Tellus Limited	Investments	Cayman Islands	9.0	100.0% (5)
Himax Media Solutions, Inc.	TFT-LCD television and monitor chipset operations	ROC	34.2	78.0% (6)
Himax Media Solutions (Hong Kong) Limited	Investments	Hong Kong	0.0 (8)	78.0% (7)
Harvest Investment Limited	Investments	ROC	1.6	100.0% 1)

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

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

(3) Indirectly, through our 88.2% ownership of Himax Display, Inc.

(4) Indirectly, through our 94.8% ownership of Himax Imaging, Inc.

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

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

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

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

4.D. Property, Plants and Equipment

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

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

Overview

We design, develop and market semiconductors that are critical components of flat panel displays. Our principal products are display drivers for large-sized TFT-LCD panels, which are used in desktop monitors, notebook computers and televisions, and display drivers for small and medium-sized TFT-LCD panels, which are used in mobile handsets and consumer electronics products such as netbook computers, digital cameras, mobile gaming devices, portable DVD players, digital photo frame and car navigation displays. We also offer display drivers for panels using OLED technology and LTPS technology. In addition, we are expanding our product offerings to include non-driver products such as timing controllers, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors and wafer level optics products. We primarily sell our display drivers to TFT-LCD panel manufacturers and mobile device module manufacturers, and we sell our television semiconductor solutions to television makers.

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

We operate primarily in a fabless business model that utilizes substantially third-party foundry and assembly and testing capabilities. We leverage our experience and engineering expertise to design high-performance semiconductors and rely largely on third-party semiconductor manufacturing service providers for wafer fabrication, gold bumping, assembly and testing. We are able to take advantage of the economies of scale and the specialization of such semiconductor manufacturing service providers. Our primarily fabless model enables us to capture certain financial and operational benefits, including reduced manufacturing personnel, capital expenditures, fixed assets and fixed costs. It also gives us the flexibility to use the technology and service providers that are the most suitable for any given product.

As our semiconductors are critical components of flat panel displays, our industry is closely linked to the trends and developments of the flat panel display industry, in particular, the TFT-LCD panel segment. Substantially all of our revenues in 2009 were derived from sales of display drivers that were eventually incorporated into TFT-LCD panels. We expect display drivers for TFT-LCD panels to continue to be our primary products. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions. The average selling prices of TFT-LCD panels could decline for numerous reasons, which could in turn result in downward pricing pressure on our products. See "Item 3.D. Key Information—Risk Factors—Risks Relating to Our Financial Condition and Business—We derive substantially all of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclicality and price fluctuations could negatively impact our business or results of operations."

Factors Affecting Our Performance

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

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

Average Selling Prices

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

Our average selling prices are also affected by the cyclicality of the TFT-LCD panel industry. Any downward pricing pressure on TFT-LCD panel manufacturers could result in similar downward pricing pressure on us. During periods of declining average selling prices for TFT-LCD panels, TFT-LCD panel manufacturers may also decrease capacity

utilization and sell fewer panels, which could depress demand for our display drivers. For example, in the second half of 2008, as a result of the severe economic downturn and the weakening of consumer spending, there was an over-supply of large-sized TFT-LCD panels. Many TFT-LCD panel manufacturers experienced a decrease in prices of large-sized TFT-LCD panels and reduced capacity utilization significantly, which in turn resulted in strong downward pricing pressure on and a decrease in demand for our products, particularly in late 2008 and early 2009.

While there was a rebound in demand for TFT-LCD panels in the second quarter of 2009, the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. Our product pricing remained weak in 2009. In addition, our average selling prices are affected by the size and bargaining power of our customers. The merger of CMO, Innolux and TPO could negatively affect our ability to maintain, if not raise, our selling prices. Our average selling prices are also affected by the packaging type our customers choose as well as the level of product integration. However, the impact of declining average selling prices on our profitability might be offset or mitigated to a certain extent by increased volume, as lower prices may then stimulate demand and thereby drive sales.

Unit Shipments

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

Product Mix

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

Design Wins

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

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

Design wins are not binding commitments by customers to purchase our products. However, we believe that achieving design wins is an important performance indicator. Our customers typically devote substantial time and resources to designing their products as well as qualifying their component suppliers and their products. Once our products have been designed into a system, the customer may be reluctant to change its component suppliers due to the significant costs and time associated with qualifying a new supplier or a replacement component. Therefore, we strive to work closely with current and prospective customers in order to anticipate their requirements and product road maps and achieve additional design wins.

Cost of Revenues and Cost Reductions

We strive to control our cost of revenues. Our cost of revenues as a percentage of total revenues in 2007, 2008 and 2009 was 78.0%, 75.5% and 79.5%, respectively. In 2009, as a percentage of Himax Taiwan's total manufacturing costs, the cost of wafer fabrication was 51.0%, the cost of processed tape was 16.3%, and the cost of assembly and testing was 32.3%. As a result, our ability to manage our wafer fabrication costs, costs for processed tape and assembly and testing costs is critical to our performance. In addition, to mitigate declining average selling prices, we aim to reduce unit costs by, among other things:

- improving product design (e.g., having smaller die size allows for a larger number of dies on each wafer, thereby reducing the cost of each die);

- improving manufacturing yields through our close collaboration with our semiconductor manufacturing service providers; and

- achieving better pricing from a diversified pool of semiconductor manufacturing service providers and suppliers, reflecting our ability to leverage our scale, volume requirements and close relationships as well as our strategy of sourcing from multiple service providers and suppliers.

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

Supply Chain Management

Due to the competitive nature of the flat panel display industry and our customers' need to maintain high capacity utilization in order to reduce unit costs per panel, any delays in the delivery of our products could significantly disrupt our customers' operations. To deliver our products on a timely basis and meet the quality standards and technical specifications our customers require, we must have assurances of high-quality capacity from our semiconductor manufacturing service providers. We therefore strive to manage our supply chain by maintaining close relationships with our key semiconductor manufacturing service providers and strive to provide credible forecasts of capacity demand. Since the first quarter of 2010, foundry, assembly and testing capacity and processed tape supply have been tight. Any disruption to our supply chain could adversely affect our performance and could result in a loss of customers as well as potentially damage our reputation.

Share-Based Compensation Expenses

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

We adopted a long-term incentive plan in October 2005 which permits the grant of options or RSUs to our employees and non-employees where each unit represents two ordinary shares. The actual awards will be determined by our

compensation committee. We recorded share-based compensation expenses under the long-term incentive plan totaling $20.1 million, $20.8 million and $14.1 million in 2007, 2008 and 2009, respectively. See "—Critical Accounting Policies and Estimates—Share-Based Compensation Expenses." Of the total share-based compensation expenses recognized, $14.4 million, $12.7 million and $6.5 million in 2007, 2008 and 2009, respectively, were settled in cash. We have applied Accounting Standards Codification, or ASC, ASC 718, Compensation—Stock Compensation, to account for our share-based compensation plans. ASC 718 requires companies to measure and recognize compensation expense for all share-based payments at fair value.

Set forth below is a summary of our historical share-based compensation plans for the years ended December 31, 2007, 2008 and 2009 as reflected in our consolidated financial statements.

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

We made grants of 6,694,411 RSUs to our employees on September 26, 2007. The vesting schedule for such RSU grants is as follows: 54.55% of the RSU grants vested immediately and was settled by cash in the amount of $14.4 million on the grant date, with the remainder vesting equally on each of September 30, 2008, 2009 and 2010, which have been or will be settled by our ordinary shares, subject to certain forfeiture events.

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

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

The amount of share-based compensation expense with regard to the RSUs granted to our employees on September 26, 2007, September 29, 2008 and September 28, 2009 was $3.95, $2.95 and $3.25 per ordinary share, respectively, which was based on the trading price of our ADSs on that day.

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

Signing Bonuses

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

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

In 2007, 2008 and 2009, Himax Taiwan paid $2.6 million, $2.7 million and $0.5 million, respectively, in signing bonuses which were charged to earnings. Besides Himax Taiwan, signing bonuses were adopted by four, six and six subsidiaries in 2007, 2008 and 2009, respectively, and a total of $0.6 million, $1.0 million and $0.4 million, respectively, were paid to certain employees of our subsidiaries.

Tax Credits and Exemptions

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

The ROC Statute for Upgrading Industries, which expired at the end of 2009, entitled companies to tax credits for expenses relating to qualifying research and development, personnel training and purchases of qualifying machinery. The tax credits could be applied within a five-year period. The amount of tax credit that could be applied in any year is limited to 50% of the income tax payable for that year (with the exception of the final year when the remainder of the tax credit may be applied without limitation to the total amount of the income tax). Under the ROC Statute for Upgrading Industries, Himax Taiwan was granted tax credits by the ROC Ministry of Finance at rates set at a certain percentage of the amount utilized in qualifying research and development, personnel training expenses and purchases of qualifying machinery. The balance of unused investment tax credits totaled $32.7 million, $46.8 million and $55.3 million as of December 31, 2007, 2008 and 2009, respectively. On May 12, 2010, the Industrial Innovation Act was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. Compared to the ROC Statute for Upgrading Industries, the Industrial Innovation Act provides for a smaller amount of tax credits. The Industrial Innovation Act entitles companies to tax credits for research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Industrial Innovation Act may not be carried forward. As a result, beginning in 2010, we expect to have a smaller amount of tax credits under the Industrial Innovation Act than would have been available under the ROC Statute for Upgrading Industries.

The ROC Statute for Upgrading Industries provided to companies deemed to be operating in important or strategic industries a five-year tax exemption for income attributable to expanded production capacity or newly developed technologies. Such expanded production capacity or newly developed technologies must be funded in whole or in part from either the initial capital investment made by a company’s shareholders, a subsequent capital increase or a capitalization of a company’s retained earnings. As a result of this statute, income attributable to certain of Himax Taiwan’s expanded production capacity is tax exempt for a period of five years, effective on April 1, 2004, January 1, 2006 and January 1, 2008 and expiring on March 31, 2009, December 31, 2010 and December 31, 2012, respectively. In addition, beginning January 1, 2009, Himax Semiconductor has also become entitled to a five-year tax exemption expiring on December 31, 2013. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we can continue to enjoy the five-year tax holiday since the relevant investment plans were approved by the ROC tax authority before the expiration of the Statute. Based on the ROC statutory income tax rate of 25%, the effect of such tax exemption was an increase on net income and basic and diluted earnings per share attributable to our stockholders of $27.1 million, $0.07and $0.07, respectively, for the year ended December 31, 2007, $25.2 million, $0.07 and $0.07, respectively, for the year ended December 31, 2008, and $9.4 million, $0.03 and $0.03, respectively, for the year ended December 31, 2009. As the tax exemption that expired on March 31, 2009 and the tax exemption that is scheduled to expire on December 31, 2010 account for a substantial portion of our total tax-exempted income under the ROC Statute for Upgrading Industries, our income tax expenses increased significantly in 2009 and may continue to increase significantly in the future. No such tax exemption is provided for under the newly adopted Industrial Innovation Act.

Description of Certain Statements of Income Line Items

Revenues

We generate revenues primarily from sales of our display drivers. We have achieved significant revenue growth since our inception, due primarily to a significant increase in unit shipments, partially offset by the general trend of declining average selling prices of our products. Historically, we have generated revenues from sales of display drivers for large-sized applications, display drivers for mobile handsets and display drivers for consumer electronics products. In addition, our product portfolio includes operational amplifiers, timing controllers, TFT-LCD television and monitor chipsets, LCOS projector solutions, power ICs, CMOS image sensors and wafer level optics products.

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

	Year Ended December 31,								
	2007			2008			2009		
	Amount	Percentage of Revenues		Amount	Percentage of Revenues		Amount	Percentage of Revenues	
	(in thousands, except percentages)								
Display drivers for large-sized applications	$752,196	81.9	%	$651,504	78.2	%	$493,513	71.3	%
Display drivers for mobile handsets applications	75,704	8.2		57,274	6.9		69,081	10.0	
Display drivers for consumer electronics applications	66,634	7.3		81,866	9.8		83,527	12.1	
Others(1)	23,677	2.6		42,155	5.1		46,260	6.6	
Total	$918,211	100.0	%	$832,799	100.0	%	$692,381	100.0	%

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

A limited number of customers account for substantially all our revenues. In each of 2007, 2008 and 2009, CMO and its affiliates accounted for over half of our revenues. The percentage of our total revenues generated from sales to CMO and its affiliates in 2007 and 2008 increased in those years as a result of its significant capacity expansion in 2007 and the first half of 2008. While sales to CMO and its affiliates decreased significantly in absolute terms in 2009 due to the impact of the global economic downturn, the percentage of our total revenues generated from sales to CMO and its affiliates continued to increase in 2009, primarily as a result of the significant decrease in sales in 2009 to SVA-NEC, our third largest customer in 2008. As the merger of CMO, Innolux and TPO was completed in March 2010, we expect to continue relying on sales to Chimei Innolux, the surviving entity following the merger, in 2010. The table below sets forth, for the periods indicated, our revenues generated from our most significant customers (including their respective affiliates) and such revenues as a percentage of our total revenues:

	Year Ended December 31,								
	2007			2008			2009		
	Amount	Percentage of Revenues		Amount	Percentage of Revenues		Amount	Percentage of Revenues	
	(in thousands, except percentages)								
CMO and its affiliates(1)	$539,737	58.8	%	$520,461	62.5	%	$445,245	64.3	%
Samsung and its affiliates	34,375	3.7		54,138	6.5		50,184	7.2	
CPT and its affiliates	66,694	7.3		32,673	3.9		17,023	2.5	
SVA-NEC	76,774	8.4		52,101	6.3		3,365	0.5	
Others	200,631	21.8		173,426	20.8		176,564	25.5	
Total	$918,211	100.0	%	$832,799	100.0	%	$692,381	100.0	%

Note: (1) The above revenues from sales to CMO and its affiliates in 2007, 2008 and 2009 do not include any revenues from sales to Innolux or TPO or their respective affiliates. In 2007, 2008 and 2009, Innolux and its affiliates

accounted for approximately 3.2%, 2.8% and 1.4% of our revenues, respectively, and TPO and its affiliates accounted for approximately 2.7%, 2.7% and 1.8% of our revenues, respectively.

SVA-NEC accounted for approximately 8.4%, 6.3% and 0.5% of our revenues in 2007, 2008 and 2009, respectively. As a result of its substantial reduction in fab utilization and its weak financial condition, our sales to SVA-NEC have decreased significantly since the fourth quarter of 2008 as compared to prior years. Beginning in March 2009, we have also required SVA-NEC to obtain guarantees by banks or third party customers in favor of us for the majority of new purchase orders. The sharp reduction in sales to SVA-NEC has had a negative and material impact on our business, results of operations, and financial condition in 2008 and 2009.

The global TFT-LCD panel market is highly concentrated, with only a limited number of TFT-LCD panel manufacturers producing large-sized TFT-LCD panels in high volumes. We sell large-sized panel display drivers to

many of these TFT-LCD panel manufacturers. Our revenues, therefore, will depend on our ability to capture an increasingly larger percentage of each panel manufacturer's display driver requirements.

We derive substantially all of our revenues from sales to Asia-based customers whose end products are sold worldwide. In 2007, 2008 and 2009, approximately 85.5%, 77.6% and 79.2% of our revenues, respectively, were from customers headquartered in Taiwan. We believe that substantially all of our revenues will continue to be from customers located in Asia, where almost all of the TFT-LCD panel manufacturers and mobile device module manufacturers are located. As a result of the regional customer concentration, we expect to continue to be particularly subject to economic and political events and other developments that affect our customers in Asia. A substantial majority of our sales invoices are denominated in U.S. dollars.

Costs and Expenses

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

Cost of Revenues

The principal items of our cost of revenues are:

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

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

Research and Development Expenses

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

General and Administrative Expenses

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

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

Bad Debt Expense

We evaluate our outstanding accounts receivable on a monthly basis for collectibility purposes. In establishing the required allowance, we consider our historical collection experience, current receivable aging and the current trend in the credit quality of our customers. We recognized bad debt expense of nil, $25.3 million, and $0.2 million

in 2007, 2008 and 2009, respectively. Our bad debt expense in 2008 related mainly to the uncollected accounts receivable outstanding from SVA-NEC.

Sales and Marketing Expenses

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

Share-Based Compensation Expenses

Our share-based compensation expenses consist of various forms of share-based compensation that we have historically issued to our employees and consultants, as well as share-based compensation issued to employees, directors and service providers under our 2005 long-term incentive plan. We allocate such share-based compensation expenses to the applicable cost of revenues and expense categories as related services are performed. See note 15 to our consolidated financial statements. Historically our share-based compensation practice comprised grants of (i) bonus shares to employees, (ii) nonvested shares to employees, (iii) treasury shares to employees and (iv) shares to non-employees. Under the long-term incentive plan, we granted RSUs on December 30, 2005 to our employees and directors and again on September 29, 2006, September 26, 2007, September 29, 2008 and September 28, 2009 to our employees. Share-based compensation expenses recorded under the long-term incentive plan totaled $20.1 million, $20.8 million and $14.1 million in 2007, 2008 and 2009, respectively. See “—Critical Accounting Policies and Estimates—Share-Based Compensation” for further discussion of the accounting of such expenses.

Income Taxes

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

Pursuant to the amendments to the ROC Income Tax Act adopted in May 2009, the income tax rate has been reduced from 25% to 20% effective January 1, 2010. ROC tax regulations require our ROC subsidiaries to pay an additional 10% tax on unappropriated earnings.

ROC law offers preferential tax treatments to industries that are encouraged by the ROC government. The ROC Statute for Upgrading Industries, which expired at the end of 2009, entitled companies to tax credits for expenses relating to qualifying research and development and personnel training expenses and purchases of qualifying machinery. The tax credits could be applied within a five-year period. The amount from the tax credit that could be applied in any year (with the exception of the final year when the remainder of the tax credit may be applied without limitation to the total amount of the income tax payable) is limited to 50% of the income tax payable for that year. Under the ROC Statute for Upgrading Industries, Himax Taiwan, Himax Semiconductor, Himax Display, Himax Analogic, Himax Media Solutions and Himax Imaging, Ltd. were granted tax credits by the ROC Ministry of Finance at rates set at a certain percentage of the amount utilized in qualifying research and development and personnel training expenses. The balance of unused investment tax credits totaled $32.7 million, $46.8 million and $55.3 million

as of December 31, 2007, 2008 and 2009, respectively. On May 12, 2010, the Industrial Innovation Act was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. Compared to the ROC Statute for Upgrading Industries, the Industrial Innovation Act provides for a smaller amount of tax credits. The Industrial Innovation Act entitles companies to tax credits for research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided

under the Industrial Innovation Act may not be carried forward. As a result, beginning in 2010, we expect to have a smaller amount of tax credits under the Industrial Innovation Act than would have been available under the ROC Statute for Upgrading Industries.

In addition, under the ROC Statute for Upgrading Industries and the applicable grandfather clause, income attributable to certain of Himax Taiwan's expanded production capacity is tax exempt for a period of five years, effective on April 1, 2004, January 1, 2006 and January 1, 2008 and expiring on March 31, 2009, December 31, 2010 and December 31, 2012, respectively. In addition, beginning January 1, 2009, Himax Semiconductor is also entitled to a five-year tax exemption expiring on December 31, 2013. Based on the ROC statutory income tax rate of 25%, the effect of these tax exemptions on net income and basic and diluted earnings per ordinary share attributable to our stockholders for the year ended December 31, 2009 had been an increase of $9.4 million, $0.03 and $0.03, respectively. The tax exemption that expired on March 31, 2009 and the tax exemption that is scheduled to expire on December 31, 2010 account for a substantial proportion of our total tax-exempted income under the ROC Statute for Upgrading Industries. No such tax exemption is provided for under the newly adopted Industrial Innovation Act.

Critical Accounting Policies and Estimates

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

Share-Based Compensation

Share-based compensation primarily consists of grants of nonvested or restricted shares of common stock, stock options and RSUs issued to employees. We have applied ASC 718 for our share-based compensation plans for all periods since the incorporation of Himax Taiwan in 2001. The cost of employee services received in exchange for share-based compensation is measured based on the grant-date fair value of the share-based instruments issued. The cost of employee services is equal to the grant-date fair value of shares issued to employees and is recognized in earnings over the service period. Share-based compensation expense estimates also take into account the number of shares awarded that management believes will eventually vest. We adjust our estimate for each period to reflect the current estimate of forfeitures. As of December 31, 2009, we based our share-based compensation cost on an assumed forfeiture rate of 10% per annum for RSUs issued in 2007 and 8.5% per annum for RSUs issued in 2008 and 2009 under our long-term incentive plan. If actual forfeitures occur at a lower rate, share-based compensation costs will increase in future periods.

For our issuance of RSUs in 2007, 2008 and 2009, the fair value of the ordinary shares underlying the RSUs granted to our employees was $3.95, $2.95 and $3.25 per share, respectively, which was the closing price of our ADSs on September 26, 2007, September 29, 2008 and September 28, 2009, respectively.

Allowance for Doubtful Accounts, Sales Returns and Discounts

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

We evaluate our outstanding accounts receivable on a monthly basis for collectibility purposes. In establishing the required allowance, we consider our historical collection experience, current receivable aging and the current trend in the credit quality of our customers. In 2008, we recognized a valuation allowance of $25.3 million for the probable

credit loss relating to SVA-NEC. Since around September 2008, SVA-NEC has delayed paying a large portion of our accounts receivable outstanding from them. Subsequently, in late February 2009, it was reported that SVA Group, the ultimate parent company of SVA-NEC, was in financial distress, and in late March 2009, the Shanghai municipal government set up a conservatorship committee to assist in SVA Group's restructuring. We collected certain partial payments from SVA-NEC in 2009, but we believed it was probable that we would not be able to collect any of our remaining accounts receivable outstanding from SVA-NEC.

The movement in the allowance for doubtful accounts, sales returns and discounts for the years ended December 31, 2007, 2008 and 2009 are as follows:

Allowance for doubtful accounts

Year	Balance at Beginning of Year	Additions Charged to Expense	Amounts Utilized	Balance at End of Year
		(in thousands)		
December 31, 2007	$187	$-	$(187)	$-
December 31, 2008	$-	$25,305	$(8)	$25,297
December 31, 2009	$25,297	$218	$-	$25,515

Allowance for sales returns and discounts

Year	Balance at Beginning of Year	Additions Charged to Expense	Amounts Utilized	Balance at End of Year
		(in thousands)		
December 31, 2007	$681	$1,705	$(1,893)	$493
December 31, 2008	$493	$1,657	$(1,988)	$162
December 31, 2009	$162	$2,391	$(1,583)	$970

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted-average method. For work-in-process and manufactured inventories, cost consists of the cost of raw materials (primarily fabricated wafers and processed tape), direct labor and an appropriate proportion of production overheads. We also write down excess and obsolete inventory to its estimated market value based upon estimations about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional future inventory write-downs may be required which could adversely affect our operating results. Once written down, inventories are carried at this lower amount until sold or scrapped. If actual market conditions are more favorable, we may have higher operating income when such products are sold. Sales to date of such products have not had a significant impact on our operating income. The inventory write-downs in 2007, 2008 and 2009 were approximately $14.8 million, $18.0 million and $13.6 million, respectively, and were included in cost of revenues in our consolidated statements of income. The increase in inventory write-down in 2008 was generally attributable to the shorter-than-expected product life cycle for certain products, the overestimated market demand and significant changes in customers' forecasts.

Impairment of Long-Lived Assets, Excluding Goodwill

We routinely review our long-lived assets that are held and used for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, average selling prices, utilization rates and other factors. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment charge is recognized for the amount that the

carrying value of the asset exceeds its fair value, based on the best information available, including discounted cash flow analysis. However, due to the cyclical nature of our industry and changes in our business strategy, market requirements, or the needs of our customers, we may not always be in a position to accurately anticipate declines in the utility of our equipment or acquired technology until they occur. We have not had any impairment charges on long-lived assets during the period from December 31, 2007 to December 31, 2009.

Business Combinations

When we acquire businesses, we allocate the purchase price to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities

assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the synergistic benefits expected to be derived from the acquired business. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

Goodwill

We evaluate goodwill for impairment at least annually, and test for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. We consider the enterprise as a whole to be a single reporting unit for purposes of evaluating goodwill impairment. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805 Business Combination. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. In each of 2007, 2008 and 2009, we performed our impairment testing of goodwill and concluded that there was no goodwill impairment.

Product Warranty

Under our standard terms and conditions of sale, products sold are subject to a limited product quality warranty. We may receive warranty claims outside the scope of the standard terms and conditions. We provide for the estimated cost of product warranties at the time revenue is recognized based primarily on historical experience and any specifically identified quality issues. The movement in accrued warranty costs for the years ended December 31, 2007, 2008 and 2009 is as follows:

Year	Balance at Beginning of Year	Additions Charged to Expense	Amount Utilized	Balance at End of Year
		(in thousands)		
December 31, 2007	$630	$799	$(1,094)	