

Himax Technologies, Inc.  
Form 20-F  
April 15, 2014

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

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**FORM 20-F**

(Mark One)

**.. 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, 2013**

**OR**

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

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

**OR**

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

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

**Commission file number: 000-51847**

**HIMAX TECHNOLOGIES, INC.**  
(Exact name of Registrant as specified in its charter)

**Not Applicable**  
(Translation of Registrant's name into English)

**CAYMAN ISLANDS**  
(Jurisdiction of incorporation or organization)

**NO. 26, ZIH LIAN ROAD  
SINSHIH DISTRICT, TAINAN CITY 74148  
TAIWAN, REPUBLIC OF CHINA**  
(Address of principal executive offices)

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

**Taipei 10046**

**Taiwan, Republic of China**

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

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

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

\* 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. 341,049,418 Ordinary Shares.

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

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

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

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

Large accelerated filer "                      Accelerated filer x                      Non-accelerated filer "

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

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

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

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

☐ Yes ☒ No

## TABLE OF CONTENTS

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|   | <u>Page</u> |
|---|-------------|
| SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS             | 4           |
| CERTAIN CONVENTIONS   | 4           |
| PART I  | 6           |
| ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS | 6           |
| ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE               | 6           |
| ITEM 3. KEY INFORMATION                                       | 6           |
| 3.A. Selected Financial Data                                  | 6           |
| 3.B. Capitalization and Indebtedness                          | 8           |
| 3.C. Reason for the Offer and Use of Proceeds                 | 8           |
| 3.D. Risk Factors   | 9           |
| ITEM 4. INFORMATION ON THE COMPANY                            | 30          |
| 4.A. History and Development of the Company                   | 30          |
| 4.B. Business Overview  | 31          |
| 4.C. Organizational Structure                                 | 54          |
| 4.D. Property, Plant and Equipment                            | 56          |
| ITEM 4A. UNRESOLVED STAFF COMMENTS                            | 56          |
| ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS          | 56          |
| 5.A. Operating Results  | 56          |
| 5.B. Liquidity and Capital Resources                          | 73          |
| 5.C. Research and Development                                 | 74          |
| 5.D. Trend Information  | 74          |
| 5.E. Off-Balance-Sheet Arrangements                           | 75          |
| 5.F. Tabular Disclosure of Contractual Obligations            | 75          |
| ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES            | 76          |
| 6.A. Directors and Senior Management                          | 76          |
| 6.B. Compensation of Directors and Executive Officers         | 77          |
| 6.C. Board Practices  | 78          |
| 6.D. Employees  | 80          |
| 6.E. Share Ownership  | 83          |
| ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS     | 83          |
| 7.A. Major Shareholders                                       | 83          |
| 7.B. Related Party Transactions                               | 84          |
| 7.C. Interests of Experts and Counsel                         | 85          |
| ITEM 8. FINANCIAL INFORMATION                                 | 85          |
| 8.A. Consolidated Statements and Other Financial Information  | 85          |
| 8.B. Significant Changes                                      | 86          |
| ITEM 9. THE OFFER AND LISTING                                 | 86          |
| 9.A. Offer and Listing Details                                | 86          |
| 9.B. Plan of Distribution                                     | 87          |
| 9.C. Markets  | 87          |
| 9.D. Selling Shareholders                                     | 87          |
| 9.E. Dilution   | 87          |
| 9.F. Expenses of the Issue                                    | 87          |
| ITEM 10. ADDITIONAL INFORMATION                               | 87          |
| 10.A. Share Capital   | 87          |

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|  |    |
|--|----|
| 10.B. Memorandum and Articles of Association | 87 |
| 10.C. Material Contracts                     | 88 |
| 10.D. Exchange Controls                      | 88 |
| 10.E. Taxation                               | 88 |
| 10.F. Dividends and Paying Agents            | 91 |
| 10.G. Statement by Experts                   | 91 |
| 10.H. Documents on Display                   | 91 |

|   |    |
|---|----|
| 10.I. Subsidiary Information  | 91 |
| ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK                   | 91 |
| ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES                       | 92 |
| 12.A. Debt Securities   | 92 |
| 12.B. Warrants and Rights   | 92 |
| 12.C. Other Securities  | 92 |
| 12.D. American Depositary Shares  | 92 |
| PART II   | 93 |
| ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES                              | 93 |
| ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS | 93 |
| ITEM 15. CONTROLS AND PROCEDURES  | 93 |
| ITEM 16. [RESERVED]   | 95 |
| 16.A. Audit Committee Financial Expert  | 95 |
| 16.B. Code of Ethics  | 95 |
| 16.C. Principal Accountant Fees and Services  | 95 |
| 16.D. Exemptions from the Listing Standards for Audit Committees                      | 96 |
| 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers          | 96 |
| 16.F. Change in Registrant's Certified Accountant                                     | 97 |
| 16.G. Corporate Governance  | 97 |
| 16.H. Mine Safety Disclosure  | 97 |
| PART III  | 97 |
| ITEM 17. FINANCIAL STATEMENTS   | 97 |
| ITEM 18. FINANCIAL STATEMENTS   | 97 |
| ITEM 19. EXHIBITS   | 99 |

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

## **CERTAIN CONVENTIONS**

Unless otherwise indicated, all translations from U.S. dollars to NT dollars in this annual report were made at a rate of \$1.00 to NT\$29.83, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States (the “Federal Reserve Board”) on December 31, 2013. 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 April 4, 2014, the noon buying rate was \$1.00 to NT\$30.20. 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;

“ROC” or “Taiwan” refers to the island of Taiwan and other areas under the effective control of the Republic of China;

“PRC” or “China” for purposes of this annual report refers to the People’s Republic of China, excluding Taiwan and the special administrative regions of Hong Kong and Macau;

“AMOLED” refers to active matrix organic light-emitting diode;

“ASIC” refers to application specific integrated circuit;

“CMOS” refers to complementary metal oxide semiconductor;



“head-mounted-display” refers to a display device, worn on the head or as part of a helmet, that has a small display optic in front of one or each;

“IC” refers to integrated circuit;

“IGZO” refers to indium gallium zinc oxide;

“Innolux” refers to Innolux Corporation, its predecessor and consolidated subsidiaries, unless the context otherwise requires;

“LCOS” refers to liquid crystal on silicon;

“LED” refers to light-emitting diode;

“LTPS” refers to low temperature poly silicon;

“MEMS” refers to micro-electro mechanical systems;

“OLED” refers to organic light-emitting diode;

“TFT-LCD” refers to amorphous silicon thin film transistor liquid crystal display, or “a-Si TFT-LCD”;

“VGA” refers to Video Graphics Array;

“wafer level optics” are optical products manufactured using semiconductor process on wafers;

“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, 2011, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012 and 2013 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, 2009 and 2010 and the selected consolidated balance sheet data as of December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements that have not been included herein and were prepared in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes to those statements included herein.

|   | Year Ended December 31,               |            |            |            |            |
|---|---------------------------------------|------------|------------|------------|------------|
|   | 2009                                  | 2010       | 2011       | 2012       | 2013       |
|   | (in thousands, except per share data) |            |            |            |            |
| Consolidated Statement of Income Data:  |                                       |            |            |            |            |
| Revenues from third parties, net  | \$ 245,075                            | \$ 304,068 | \$ 374,788 | \$ 485,281 | \$ 684,184 |
| Revenues from related parties, net  | 447,306                               | 338,624    | 258,233    | 251,974    | 86,555     |
| Costs and expenses <sup>(1)</sup> :   |                                       |            |            |            |            |
| Cost of revenues  | 550,556                               | 507,647    | 507,449    | 566,700    | 578,886    |
| Research and development  | 71,364                                | 76,426     | 79,042     | 70,913     | 80,368     |
| General and administrative  | 16,346                                | 18,770     | 17,095     | 17,139     | 18,147     |
| Bad debt expense (recovery)   | 218                                   | (8,788)    | (1,541)    | -          | 173        |
| Sales and marketing   | 10,360                                | 13,279     | 14,368     | 15,443     | 18,822     |
| Operating income  | \$ 43,537                             | \$ 35,358  | \$ 16,608  | \$ 67,060  | \$ 74,343  |
| Net income <sup>(2)</sup>   | \$ 35,810                             | \$ 29,066  | \$ 9,507   | \$ 50,138  | \$ 55,924  |
| Net income attributable to Himax stockholders                                   | \$ 39,650                             | \$ 33,206  | \$ 10,706  | \$ 51,596  | \$ 61,476  |
| Earnings per ordinary share attributable to Himax stockholders <sup>(2)</sup> : |                                       |            |            |            |            |
| Basic   | \$ 0.11                               | \$ 0.09    | \$ 0.03    | \$ 0.15    | \$ 0.18    |

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|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Diluted  | \$ 0.11  | \$ 0.09  | \$ 0.03  | \$ 0.15  | \$ 0.18  |
| Earnings per ADS attributable to Himax stockholders:                               |          |          |          |          |          |
| Basic  | \$ 0.21  | \$ 0.19  | \$ 0.06  | \$ 0.30  | \$ 0.36  |
| Diluted  | \$ 0.21  | \$ 0.19  | \$ 0.06  | \$ 0.30  | \$ 0.36  |
| Weighted-average number of ordinary shares used in earnings per share computation: |          |          |          |          |          |
| Basic  | 369,652  | 355,037  | 353,771  | 341,056  | 340,423  |
| Diluted  | 370,229  | 355,690  | 353,827  | 341,524  | 343,618  |
| Weighted-average number of ADS equivalent used in earnings per share computation:  |          |          |          |          |          |
| Basic  | 184,826  | 177,518  | 176,886  | 170,528  | 170,211  |
| Diluted  | 185,115  | 177,845  | 176,914  | 170,762  | 171,809  |
| Cash dividends declared per ordinary share <sup>(3)</sup>                          | \$ 0.150 | \$ 0.125 | \$ 0.060 | \$ 0.032 | \$ 0.125 |
| Cash dividends declared per ADS  | \$ 0.300 | \$ 0.250 | \$ 0.120 | \$ 0.063 | \$ 0.250 |

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

|                            | Year Ended December 31, |           |          |          |          |
|----------------------------|-------------------------|-----------|----------|----------|----------|
|                            | 2009                    | 2010      | 2011     | 2012     | 2013     |
|                            | (in thousands)          |           |          |          |          |
| Cost of revenues           | \$ 264                  | \$ 240    | \$ 124   | \$ 176   | \$ 235   |
| Research and development   | 10,936                  | 8,803     | 5,062    | 5,625    | 6,705    |
| General and administrative | 1,959                   | 1,525     | 872      | 1,191    | 1,308    |
| Sales and marketing        | 1,902                   | 1,613     | 1,005    | 1,230    | 1,425    |
| Total                      | \$ 15,061               | \$ 12,181 | \$ 7,063 | \$ 8,222 | \$ 9,673 |

Of the \$15.1 million, \$12.2 million, \$7.1 million, \$8.2 million and \$9.7 million in share-based compensation in 2009, 2010, 2011, 2012 and 2013, \$6.5 million, \$5.9 million, \$2.9 million, \$6.3 million and \$7.8 million were settled in cash, respectively.

Under the ROC Statute for Upgrading Industries, we are exempt from income taxes for income attributable to expanded production capacity or newly developed technologies. The effect of such tax exemption on our historical results was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$9.4 million, \$0.03 and \$0.03, respectively, for the year ended December 31, 2009, \$3.6 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2010, \$0.8 million, \$0.002 and \$0.002, respectively, for the year ended December 31, 2011, \$2.9 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2012 and \$2.4 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2013. A portion of these tax exemptions expired or will expire on December 31, 2012, December 31, 2013 and December 31, 2018.

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

|   | As of December 31, |           |            |            |            |
|---|--------------------|-----------|------------|------------|------------|
|   | 2009               | 2010      | 2011       | 2012       | 2013       |
|   | (in thousands)     |           |            |            |            |
| Consolidated Balance Sheet Data:              |                    |           |            |            |            |
| Cash and cash equivalents                     | \$ 110,924         | \$ 96,842 | \$ 106,164 | \$ 138,737 | \$ 127,320 |
| Accounts receivable, net                      | 64,496             | 80,212    | 101,280    | 135,747    | 200,725    |
| Accounts receivable from related parties, net | 138,172            | 95,964    | 79,833     | 73,258     | -          |
| Inventories                                   | 67,768             | 117,988   | 112,985    | 116,671    | 177,399    |
| Total current assets                          | 423,797            | 485,924   | 515,709    | 567,088    | 639,657    |
| Total assets                                  | 550,448            | 619,620   | 644,978    | 674,598    | 759,327    |
| Accounts payable                              | 88,079             | 115,922   | 134,353    | 135,546    | 151,290    |
| Total current liabilities                     | 120,651            | 205,748   | 245,360    | 242,117    | 303,833    |
| Total liabilities                             | 126,376            | 212,644   | 249,920    | 246,440    | 307,112    |
| Redeemable noncontrolling interest            | -                  | -         | -          | -          | 3,656      |
| Ordinary shares                               | 107,404            | 106,153   | 107,010    | 107,010    | 107,010    |
| Total equity                                  | 424,072            | 406,976   | 395,058    | 428,158    | 448,559    |

Note: Himax Display, Inc., a consolidated subsidiary of our company, issued redeemable convertible preferred shares to a non-controlling shareholder. The noncontrolling shareholder may, solely at its option, convert their preferred shares at any time into ordinary shares of Himax Display, Inc. on a one to one basis. The redeemable noncontrolling interest was originally recognized on the balance sheet at fair value. Each reporting period, the redeemable noncontrolling interest is presented at the greater of its carrying amount or redemption value. Changes in value from

period to period are charged to Himax stockholders on our consolidated balance sheets.

|   | Year Ended December 31, |           |           |           |           |
|---|-------------------------|-----------|-----------|-----------|-----------|
|   | 2009                    | 2010      | 2011      | 2012      | 2013      |
|   | (in thousands)          |           |           |           |           |
| Consolidated Cash Flow Data:              |                         |           |           |           |           |
| Net cash provided by operating activities | \$ 73,630               | \$ 57,631 | \$ 43,448 | \$ 52,167 | \$ 51,123 |
| Net cash used in investing activities     | (7,541)                 | (17,599)  | (10,197)  | (695)     | (30,525)  |
| Net cash used in financing activities     | (90,779)                | (54,195)  | (24,015)  | (18,931)  | (32,103)  |

### 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. The exchange rates reflect the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board.

| Period                 | Noon Buying Rate             |       |       | Period-end |
|------------------------|------------------------------|-------|-------|------------|
|                        | Average <sup>(1)</sup>       | High  | Low   |            |
|                        | (NT dollars per U.S. dollar) |       |       |            |
| 2009                   | 32.96                        | 35.21 | 31.95 | 31.95      |
| 2010                   | 31.39                        | 32.43 | 29.14 | 29.14      |
| 2011                   | 29.42                        | 30.67 | 28.50 | 30.27      |
| 2012                   | 29.47                        | 30.28 | 28.96 | 29.05      |
| 2013                   | 29.73                        | 30.20 | 28.93 | 29.83      |
| October                | 29.38                        | 29.49 | 29.32 | 29.42      |
| November               | 29.52                        | 29.65 | 29.37 | 29.59      |
| December               | 29.72                        | 30.03 | 29.53 | 29.83      |
| 2014                   |                              |       |       |            |
| January                | 30.14                        | 30.31 | 29.90 | 30.31      |
| February               | 30.31                        | 30.37 | 30.25 | 30.29      |
| March                  | 30.40                        | 30.65 | 30.24 | 30.20      |
| April(through April 4) | 30.26                        | 30.29 | 30.20 | 30.20      |

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**

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

There has been an increased level of industry consolidation among our suppliers in recent years. In January, 2010, Chartered Semiconductor Manufacturing Ltd., one of our foundry service providers, merged with GlobalFoundries, one of the world's largest semiconductor foundries. In April 2010, Chipbond Technology Corporation, or Chipbond, merged with International Semiconductor Technology Ltd., or IST, which have both been among our principal providers of gold bumping, assembly and testing, and chip probe testing services. Such merger and acquisition activities will likely increase the size and market power of the relevant suppliers and reduce the number of suppliers we could use. In addition, Siliconware Precision Industries Co., Ltd. closed its gold bumping manufacturing service in July 2010. Samsung Techwin Co., Ltd and Mitsui Micro Circuits Taiwan Co., Ltd will close chip-on flex, or packages business after June 2012. Such industry change could further reduce the number of suppliers for gold bumping, COF packages services and Tape that we could use. Therefore, suppliers could be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. Moreover, as gold is a crucial raw material in the gold bumping process, any increases in the price of gold could result in an increase in our average unit cost and a decrease in our profit margin. If we are unable to transfer any increase in average unit cost to our customers by selling at higher prices, our gross margin would decrease and our results of operations could be adversely affected.

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

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

***We derive over 80% of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclicity and price fluctuations could negatively impact our business or results of operations.***

In 2012 and 2013, 86.0% and 83.6% 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 with the exception of the new high end and high resolution products. 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 industrial manufacturing capacity due to the ramping up of new fabrication facilities and/or improvements in production yields; and
- manufacturers operating at high levels of capacity utilization in order to reduce fixed costs per panel.

The TFT-LCD panel industry is volatile and difficult to predict. Beginning in the second half of 2008, as a result of the severe economic downturn, the TFT-LCD panel industry suffered from an oversupply and a decrease in the average selling price of TFT-LCD panels. Such environment continued as we entered 2009, resulting in significant downward pricing pressure on our products. There was a rebound in demand for TFT-LCD panels in the second quarter of 2009, but the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. In the first half of 2010, due to rush orders from customers, supply chain for display drivers became very tight, especially for wafer foundry and processed tape. TFT-LCD panel manufacturers began to significantly increase their orders for certain components for TFT-LCD panels because of concerns about component shortage. As a result, the TFT-LCD panel industry suffered again from an oversupply in the second half of 2010 as the end demand did not pick up as expected, which negatively affected our sales to the TFT-LCD panel industry. Moreover, the 9.0 magnitude earthquake and tsunami in Japan in March 2011 materially and adversely impacted the supply chain for the TFT-LCD industry. Japan has played and is expected to continue to play an important role in supplying chemicals, raw materials, semiconductors and other products to both the TFT-LCD panel industry and the semiconductor industry and any future adverse impacts to the Japanese TFT-LCD panel industry may negatively impact our sales in Japan which could have a material adverse effect on our business or results of operations. In 2012 and 2013, there were no events such as those described above that negatively impacted the TFT-LCD panel industry; however, we cannot assure you that such similar events will not occur in the future or there will not be any future shortages of materials or components for our products or our customers' products or a decrease in demand for our products.

In addition, the merger of certain of our major customers, including CMO, Innolux and TPO in 2010, could result in an increase in their bargaining power and therefore subject us to additional downward pricing pressure. We cannot assure you that in such periods in which we experience significant downward pricing pressure, we could sufficiently reduce costs to completely offset the loss of revenues. In addition, a severe and prolonged industry downturn could also result in higher risks in relation to the collectability of our accounts receivable, the marketability and valuation of our inventories, the impairment of our tangible and intangible assets, and the stability of our supply chain. As a result, the cyclical nature of the TFT-LCD panel industry could adversely affect our revenues, cost of revenues and results of operations.

***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 as we diversify our product portfolio and because our non-driver products have higher gross margin than our driver products. Our non-driver products include, among others, timing controllers, touch panel controllers, TFT-LCD television and monitor semiconductor solutions, LCOS and MEMS microdisplays, power management ICs, CMOS image sensors, and wafer level optics products.

We believe end products utilizing our LCOS technology could potentially be a large market. Although we have made major progress toward commercialization of LCOS microdisplays for head-mounted-display, it is at a relatively early stage as compared to other products and has a relatively immature supply chain. Therefore it is difficult to project the success of the applications that use LCOS microdisplay products. We also believe there are potential market opportunities for our CMOS image sensors. However, the demand fluctuates and is very hard to predict. As we rely primarily on third-party foundries to supply wafers with at least a 3-month lead time and we currently do not have any long-term supply arrangements with any third-party foundries, we cannot assure you that we can acquire sufficient wafer capacity to fulfill customers' orders.

Developing and commercializing each of our non-driver products requires a significant amount of management, engineering and monetary resources. For example, we have established certain in-house facilities for key manufacturing process of our non-driver products including LCOS projector solutions and wafer-level optics products. We also plan to increase capital expenditure for the development and manufacturing of non-driver products

in the future. Moreover, we will be subject to ramp-up expenses in the early stage of mass production of our non-driver products. Numerous uncertainties exist in developing new products and we cannot assure you that we will be able to develop our non-driver products successfully. We may underestimate the amount of capital, personnel and other resources required to develop and commercialize our non-driver products, which may affect the success of our growth strategy. We may also overestimate the market potential of the end products that are utilizing or will utilize our non-driver products, which may negatively impact our strategy for the development of non-driver products. In addition, if we are unsuccessful in expanding our product offerings to non-driver products, it may negatively affect our reputation and the status of our brand in our other markets. The failure or delay in the development, production or commercialization of any of our non-driver products, the occurrence of any product defects or design flaws, or the low market acceptance of or demand for either our products or the end devices using our products may adversely affect our results of operations and growth prospects.

***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, 2013, our accounts receivable less allowance for sales returns and discounts from Innolux and its affiliates were \$48.2 million, which represented approximately 24.0% 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, partly due to the severe economic downturn, we incurred significant bad debt expense in relation to one of our largest customers Shanghai SVA-NEC Liquid Crystal Display Co. Ltd., or SVA-NEC, which represented more than 10% of our total accounts receivable outstanding as of December 31, 2008. During the second half of 2011, we agreed to extend payment terms for one of our largest customers because at that time this customer experienced certain financial difficulties. The receivables from this customer had since been paid and stayed current during 2012 and we incurred no bad debt expenses. In addition, we have at times agreed to extend the payment terms for certain of our third-party and related party customers. Other customers have also requested extension of payment terms. We may also agree to grant such 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.

Our customers continued to operate in a challenging business environment and may experience a decline in profitability or may not be profitable at all. In addition, the aggressive expansion plans for next generation fabs in

China proposed by several TFT-LCD panel manufacturers might significantly increase the output of TFT-LCD panels if all of the plans are implemented in the next few years, which could result in a decline in the average selling prices of TFT-LCD panels. In addition, the antitrust lawsuits in the U.S. and the European Union against several TFT-LCD panel manufacturers have materially and adversely affected the profitability of certain of our customers, which could, in turn, 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 2012 and 2013, we derived 86.0% and 83.6% of our revenues from the sale of display drivers used for large-sized applications, mobile handset applications and consumer electronics applications, and we expect to continue to derive a substantial portion of our revenues from these or related products. As the display drivers industry and our display drivers business are relatively mature, there may be limited potential for the overall display drivers market to grow and for us to further grow our market share, which could limit our future growth in revenues. Failure to grow our unit shipments for display drivers, coupled with a general decline in the average selling prices, could adversely and materially affect our results of operations. See also “Risks Relating to Our Industry The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results.” We expect to continue to derive a substantial portion of our revenues from the sale of display drivers. Therefore, the continued market acceptance of our display drivers is critical to our future success. Failure to grow or maintain our revenues generated from the sales of display drivers could adversely and materially affect our results of operations and financial condition.

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

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

***We face numerous challenges relating to our growth.***

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

- hire, train, integrate, retain and manage additional qualified engineers, senior managers, sales and marketing personnel, and information technology personnel;
- implement additional, and improve existing, administrative and operations systems, procedures and controls;
- expand our accounting and internal audit team, including hiring additional personnel with U.S. GAAP and internal control expertise;

· continue to expand and upgrade our design and product development capabilities;

· manage multiple relationships with semiconductor manufacturing service providers, customers, suppliers and certain other third parties; and

· continue to develop and commercialize non-driver products, including, among others, timing controllers, touch controller ICs, TFT-LCD television and monitor semiconductor solutions, LCOS and MEMS microdisplays, 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 realization of deferred tax assets;
- our ability to successfully design, develop and introduce in a timely manner new or enhanced products acceptable to our customers;
- changes in the relative mix in the unit shipments of our products, which may have significantly different average selling prices and cost of revenues as a percentage of revenues;
- changes in share-based compensation;
- the loss of one or more of our key customers;
- decreases in the average selling prices of our products;
- our accumulation and write-down of inventory;
- the relative unpredictability in the volume and timing of customer orders;
- shortages of other components used in the manufacture of TFT-LCD panels;
- the risk of cancellation or deferral of customer orders in anticipation of our new products or product enhancements, or due to a reduction in demand of our customers' end product;
- changes in our payment terms with our customers and our suppliers;
- our ability to negotiate favorable prices with customers and suppliers;
- our ability to hedge foreign exchange risks;
- changes in the available capacity of semiconductor manufacturing service providers;

- the rate at which new markets emerge for new products under development;

- the evolution of industry standards and technologies;

- product obsolescence and our ability to manage product transitions;

- increase in cost of revenues due to inflation;

- our involvement in litigation or other types of disputes;

changes in general economic conditions, especially the impact of the global financial crisis on economic growth and consumer spending, and the unease in the Middle East;

changes in our tax exemptions, transfer pricing policy and applicable income tax regulations; and

natural disasters, particularly earthquakes and typhoons, or outbreaks of disease affecting countries where we conduct our business or where our products are manufactured, assembled or tested.

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

***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 for 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. Moreover, Japanese integrated device manufacturer companies may outsource their semiconductor manufacturing to foundries outside Japan. This could result in tightness in the foundry supply available to us and affect our ability to acquire sufficient capacity. As we currently do not have any long-term supply arrangements with any third-party foundries to guarantee us access to a certain level of foundry capacity, if the primary third-party foundries that we rely upon are not able to meet our required capacity, or if our business relationships with these foundries are adversely affected, we would not be able to obtain the required capacity from these foundries to meet any increasing demand for our products and would have to seek alternative foundries, which may not be available on commercially reasonable terms, or at all, or which may expose us to risks associated with qualifying new foundries, as further discussed below. Our results of operations and business prospects could be adversely affected as a result of the foregoing.

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

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.

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, Powerchip Technology Corporation, or PSC, Globalfoundries Singapore Pte., Ltd. (formerly Chartered Semiconductor Manufacturing Ltd.), or Globalfoundries Singapore, United Microelectronics Corporation, or UMC, Maxchip Electronics Corp., or Maxchip, Semiconductor Manufacturing International Corporation, or SMIC, and Shanghai Hua Hong NEC Electronics Company, Ltd., or HHNEC, to manufacture a portion of our products. As a result of outsourcing the manufacturing of our wafers, we face several significant risks, including:

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

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

- potential capacity constraints faced by the limited number of high-voltage foundries and the lack of investment in new and existing high-voltage foundries;
- difficulty in attaining consistently high manufacturing yields from high-voltage foundries;

delay and time required (approximately one year) to qualify and ramp up production at new high-voltage foundries;  
and

price increases.

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

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

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

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

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

As a result of these risks, we may be required to use assembly and testing service providers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or

insufficient capacity allocation. Moreover, the scarcity and importance of assembly and testing services may necessitate us making investments in assembly and testing service providers in order to secure capacity, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.



***Shortages of 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. In addition, component manufacturers may not be able to increase or maintain their component supply because of labor shortage in China or otherwise, and may shut down certain of their capacity from time to time because of weak demand, which may increase the instability of timely delivery and the risk of shortage of components. Such shortages of components and other materials critical to the design and manufacture of our customers' products may cause a slowdown in demand for our products, resulting in a decrease in our sales and adversely affecting our results of operations. In addition, as a result of uncertain demand conditions, our customers may hesitate to build inventory on hand and tend to release orders on short notice.

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

We rely upon the continued service and performance of a relatively small number of key personnel, including certain engineering, technical and senior management personnel. In particular, our engineers and other key technical personnel are critical to our future technological and product innovations. Competition for highly skilled engineers and other key technical personnel is intense in the semiconductor industry in general and in Taiwan's flat panel semiconductor industry in particular. Moreover, our future success depends on the expansion of our senior management team and the retention of key employees such as Jordan Wu, our president and chief executive officer; Dr. Biing-Seng Wu, our chairman; and Chih-Chung Tsai, our chief technology officer. We rely on these individuals to manage our company, develop and execute our business strategies, and manage our relationships with key suppliers and customers. Any of our key employees could leave our company with little or no prior notice. They could also leave our company to work with a competitor. In addition, we do not have "key person" life insurance policies covering any of our employees. The loss of any of our key personnel or our inability to attract or retain qualified personnel, whether engineers and others, could delay the development and introduction of new products and would have an adverse effect on our ability to sell our products as well as on our overall business and growth prospects. We may also incur increased operating expenses and be required to divert the attention of other senior executives away from their original duties to recruiting replacements for key personnel.

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

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

The anticipated demand for our products may not materialize; therefore, manufacturing based on customer forecasts exposes us to risks of high inventory carrying costs, increased product obsolescence, and erosion of the products' market value. For example, some of our customers might overstate their forecasts because of concerns that their semiconductor suppliers cannot deliver on their rush orders. If we overestimate demand for our products 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, which could eventually lead to write-down of these excess inventory.

***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.

***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, including Innolux, our largest customer; 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 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. In addition, changes in our customers' business may adversely affect the quantity of purchase orders that we receive. For example, Innolux, our key customer, changed its purchase policy to diversify its display driver supply base, resulting in a decline in purchase from us. See also "Risks Relating to Our Financial Condition and Business" we generate a substantial majority of our revenues from Innolux, which is the surviving entity following the merger of three of our customers. Any loss of or a significant reduction in Innolux's sales could materially and adversely affect our operating results." The reorganization of Innolux could result 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 concessions 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.

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

As of March 31, 2014, Jordan Wu and Dr. Biing-Seng Wu (who are brothers) beneficially owned approximately 8.3% and 20.9% of our ordinary shares, respectively. For information relating to the beneficial ownership of our ordinary shares, see "Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders." These shareholders, acting together, could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. Actions may be taken even if they were opposed by our other shareholders.

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

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

- stop selling products or using technology or manufacturing processes that contain the allegedly infringing intellectual property;

pay damages to the party claiming infringement;

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

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

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

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

We believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely primarily on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain, copy or use information that we regard as proprietary, such as product design and manufacturing process expertise. As of March 31, 2014, we and our subsidiaries had 215 U.S. patent applications pending, 480 Taiwan patent applications pending and 258 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. 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.

***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 July 3, 2012, our subsidiary, Himax Display, Inc., or Himax Display, acquired all of the outstanding shares of capital stock of Spatial Photonics, Inc., or Spatial Photonics, a Delaware corporation engaged in the business of manufacturing and production of high definition, high brightness, and high contrast projection displays for business and consumer applications. We cannot assure you that we will be able to realize the benefits we anticipate from acquiring Spatial Photonics. Acquisitions or investments that we have completed or potentially may make in the future, including our acquisition of Spatial Photonics, entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

- problems integrating the acquired operations, technologies or products into our existing business and products;
- diversion of management's time and attention from our core business;
- adverse effects of losses of the acquired target upon our financial condition and results of operations;
- adverse effects on existing business relationships with customers;
- the need for financial resources above our planned investment levels;
- dilution of share ownership of current shareholders under share swap transactions;
- failures in realizing anticipated synergies;

- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack experience;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets;



- potential expenses related to the depreciation of tangible assets and amortization of intangible assets; and
- potential impairment charges related to the goodwill acquired.

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

***New regulations related to conflict minerals could increase our costs and limit the supply of certain metals used in our products.***

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, or the Dodd-Frank Act, in August 2012 the SEC promulgated final rules regarding annual disclosures by public companies of their use of certain minerals and metals, known as “conflict minerals,” which are defined as cassiterite, columbite-tantalite, gold, wolframite or their derivatives and other minerals determined by the U.S. government to be financing conflict in the Democratic Republic of Congo and adjoining countries. These new rules will require us to ascertain and disclose the origin of some of the raw materials that we use. Initial disclosures will be required no later than May 31, 2014, with subsequent disclosures required no later than May 31 of each following year. Currently, such conflict is not determinable in our case and we cannot assure you that no conflict minerals identified under the conflict minerals rules issued by the SEC are not used in our products. There will be costs associated with complying with these disclosure requirements, including costs for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules and our compliance procedures could adversely affect the sourcing, supply, and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” minerals, we cannot be sure that we will be able to obtain necessary “conflict free” minerals from such suppliers in sufficient quantities or at competitive prices.

**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 that we will be able to compete successfully against our competitors.***

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

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

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

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

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

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

Our products are generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or those of our customers unmarketable or obsolete and may require us to incur substantial unanticipated costs to comply with any such new standards. Likewise, the components used in the TFT-LCD panel industry are constantly changing with increased demand for improved features. Moreover, our past sales and profitability have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards, and to develop and introduce new and enhanced products in a timely fashion. If we do not anticipate these changes in technologies and rapidly develop and introduce new and innovative technologies, we may not be able to provide advanced display semiconductors on competitive terms, and some of our customers may buy products from our competitors instead of from us. Our continued ability to adapt to such changes and anticipate future standards will be a significant factor in maintaining or improving our competitive position and our growth prospects. We cannot assure you that we will be able to anticipate evolving industry standards, successfully complete the design of our new products, have these products manufactured at acceptable manufacturing yields, or obtain significant purchase orders for these products to meet new standards or technologies. If we fail to anticipate changes in technology and to introduce new products that achieve market acceptance, our business and results of operations could be materially and adversely affected.

## **Risks Relating to Our Holding Company Structure**

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

We are a holding company and our assets consist mainly of our 100% ownership interest in Himax Taiwan. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. Nonetheless, dividends and interest on shareholder loans that we receive from our subsidiaries in Taiwan, if any, will be subject to withholding tax under ROC law. The ability of our subsidiaries to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us is restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. 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 Taiwan company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve. 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. In addition, since Himax Taiwan is not a listed company, it will depend on us to meet its equity financing requirements in the future. Any capital contribution by us to Himax Taiwan may require the approval of the relevant ROC authorities. 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 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 2013, 36.8% 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.

***Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Taiwan economy could materially and adversely affect our business and our financial condition.***

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. Since then, the recovery has been uneven and the global economy is facing new challenges, such as the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012. It is unclear whether the European sovereign debt crisis will be contained. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the possibility of a conflict involving Iran. There have also been concerns about the tensions in the relationship between China and Japan and about North Korea's nuclear program. Economic conditions in Taiwan are sensitive to global economic conditions. Any prolonged slowdown in the global or Taiwanese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

***A substantial portion of our sales are made to customers in the PRC, which may expose us to additional political, regulatory, and economic risks.***

We have been increasingly selling our products to customers in the PRC. In 2011, 2012 and 2013, approximately 33.1%, 45.4% and 52.0% of our revenues, respectively, were from customers headquartered in the PRC. We expect to continue to increase our sales to customers in the PRC in the near future. As a result of this regional customer concentration, we expect to be particularly subject to economic and political events and other developments that affect our customers in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the structure, level of government involvement, level of development, foreign exchange control and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy and is growing rapidly. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy and also adjusted its macroeconomic control policies from time to time. These policies have led and may continue to lead to changes in market conditions. Although we believe these reforms have had a positive effect on the business of our customers in the PRC and consequently have benefited us, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future customers in the PRC. In addition, the interpretation of PRC laws and regulations involves uncertainties. We cannot assure you that changes in such laws and regulations, or in their interpretation and enforcement, will not have a material adverse effect on the businesses and operations of our customers in the PRC and consequently have a material adverse effect on our own business and operations.

***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 2013, 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 majority 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 2013, approximately 58% 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. 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 was 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 could be applied without limitation to the total amount of the income tax). Himax Taiwan, after a three year holding period, was entitled to tax credits of twenty percent of the price paid for the acquisition of shares originally issued by ROC domestic companies that are newly emerging, important and strategic industries; provided that the shareholders' meeting of such ROC companies did not resolve to forfeit the shareholders' tax credit benefit in exchange for such ROC companies' five-year tax holiday. The credit also could be applied to the income tax payable over a period of five years. Under the ROC Statute for Upgrading Industries, Himax Taiwan was granted tax credits 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 \$39.4 million, \$22.8 million and \$6.0 million as of December 31, 2011, 2012 and 2013, respectively. On May 12, 2010, the Statute for Industrial Innovation was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. Compared to the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation provides for less tax credits. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward. As a result, the tax credits that we received decreased significantly to \$1.2 million in 2012 and nil in 2013 compared to \$13.8 million in 2009.

In addition, unlike the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation no longer provides to companies deemed to be operating in important or strategic industries any tax exemption for income attributable to expanded production capacity or newly developed technologies. Pursuant to the ROC Statute for Upgrading Industries, beginning April 1, 2004, January 1, 2006, January 1, 2008 and January 1, 2014, Himax Taiwan became entitled to five preferential tax treatments, each for a period of five years, which expired or will expire on March 31, 2009, December 31, 2010, December 31, 2012 and December 31, 2018, respectively, and beginning January 1, 2009 and January 1, 2014, Himax Semiconductor also became entitled to two preferential tax treatments, each for a period of five years, which expired or will expire on December 31, 2013 and December 31, 2018. As a result of these preferential tax treatments, income attributable to certain of our expanded production capacity or newly developed technologies has been tax exempt for the relevant periods. The effect of such tax exemption under the ROC Statute for Upgrading Industries was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$0.8 million, \$0.002 and \$0.002, respectively, for the year ended December 31, 2011, \$2.9 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2012 and \$2.4 million, \$0.01 and \$0.01, respectively, for the year ended December 31, 2013. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we have continued 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.

On January 1, 2006, an income basic tax (also known as alternative minimum tax, or ("AMT")) in accordance with the ROC Income Basic Tax Act ("IBTA") became effective. The AMT is a supplemental tax which is payable if the income tax payable pursuant to the ROC Income Tax Act is below the minimum amount prescribed under the ROC IBTA. In August 2012, the AMT rate for business entities was amended from 10% to 12% effective from 2013. However, the AMT amendment is not expected to have a significant impact on our financial statements.

On April 1, 2013, the ROC Finance Committee of the Legislative Yuan passed preliminary examination on the draft amendment for anti-avoidance to establish Article 43-3 Controlled Foreign Corporation ("CFC") rules and Article 43-4 profit-seeking enterprises of resident status ("Resident Companies") rules of the Income Tax Act ("ITA"). Key aspects of

the ITA draft amendment are described as follows:

Effective starting January 1, 2015, a profit-seeking enterprise (“PSE”) that directly or indirectly owns affiliated enterprises in low-tax jurisdictions outside the territory of the ROC shall recognize and include its pro rata share of affiliated enterprises’ annual profits as investment income in its income tax return for the year. Subsequent actual dividends and distributions from such affiliated enterprises that were previously recognized as investment income (i) will then not be subject to income taxation; any surplus to previously recognized investment income shall be included as taxable income in the allocated year. Low-tax jurisdictions are defined as countries where the PSE income tax rate is lower than 30% of the income tax rate of the PSE in the ROC (the current rate is 17%). (Article 43-3 CFC rules); and

Effective starting January 1, 2015, if a PSE is incorporated based on foreign legislation but its place of effective management (PEM) is maintained within the territory of the ROC, the head office of such PSE will be determined (ii) to be within the territory of the ROC and profit-seeking enterprise income tax shall be levied in accordance with the ITA and relevant tax regulations. The aforementioned PEM refers to a place where substantive key management and commercial decisions of an entity’s business and its operations are made. The relevant definition and provisions shall be determined by the MOF. (Article 43-4 Resident Companies rule).

The ITA draft amendment is still in a preliminary form. At this time, it is unclear what the finalized form of the ITA draft amendment would be, and accordingly, it is unclear what actual effect, if any, the ITA draft amendment would have on our tax cost and net income. However, if the ITA draft amendment were finalized in its current form, it would increase our tax cost and consequently decrease our net income from 2015 onwards.

***We face risks related to health epidemics and outbreaks of contagious diseases, including H1N1 influenza, H5N1 influenza, H7N9 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, H5N1 virus and H7N9 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, H7N9 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 market price for our ADSs is volatile.***

The market price for our ADSs is volatile and has ranged from a low of \$2.4 to a high of \$15.23 on the NASDAQ Global Select Market in 2013.

The market price is subject to wide fluctuations in response to various factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in the TFT-LCD panel market;

- changes in the economic performance or market valuations of other display semiconductor companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the addition or departure of key personnel;
- fluctuations in exchange rates between the U.S. dollar and the NT dollar;

litigation related to our intellectual property; and

the release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ADSs.

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

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

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of March 31, 2014, we had 341,049,418 outstanding shares and a significant number of our shares were beneficially owned by certain major shareholders such as our directors and executive officers. See “Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders. “If we, our executive officers, or 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 and the lack of investor relations activities.***

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 relations activities. The lack of coverage could negatively impact investor interest and the level of trading in our ADSs.

***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. 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.

***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.

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.

In February 2007, we completed the acquisition of Wisepal, 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 July 2012, our subsidiary, Himax Display, completed the acquisition of Spatial Photonics, a Delaware corporation engaged in the business of manufacturing and production of MEMS products.

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

Investor inquiries should be directed to our Investor Relations department, at +1-949-585-9838 ext. 221 or by email to [stephanie\\_kuo@himax.com.tw](mailto:stephanie_kuo@himax.com.tw). Our website is [www.himax.com.tw](http://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.

#### **4.B. Business Overview**

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

#### **Industry Background**

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

#### ***Flat Panel Display Semiconductors***

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

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

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

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

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

*Television Chipset.* Television flat panel displays require chipsets that typically contain all or some of the following components: an audio processor, analog interfaces, digital interfaces, a video processor, a channel receiver and a digital television decoder. See “ Products TFT-LCD Television and Monitor Semiconductor Solutions TFT-LCD Television and Monitor Chipsets” for a description of these components.

*Power IC.* Power ICs include certain drivers, amplifiers, DC to DC converters and other semiconductors designed to enhance power management, such as voltage regulation, voltage boosting and battery management.

*Others.* Flat panel displays also require multiple general purpose semiconductors such as memory, power converters and inverters.

### ***Characteristics of the Display Driver Market***

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

#### ***Concentration of Panel Manufacturers***

The global TFT-LCD panel industry consists of a small number of manufacturers, substantially all of which are based in Asia. In recent years, TFT-LCD panel manufacturers, in particular Taiwan-, Korea- and China-based manufacturers, have invested or are planning to invest heavily to establish, construct and ramp up additional fab capacity. The capital intensive nature of the industry often results in TFT-LCD panel manufacturers operating at a high level of capacity utilization in order to reduce unit costs. This tends to create a temporary oversupply of panels, which reduces the average selling price of panels and puts pricing pressure on component companies including display driver companies. Moreover, the concentration of panel manufacturers permits major panel manufacturers to exert pricing pressure on display driver companies such as us. The small number of panel manufacturers exacerbates this situation 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 require 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 require geometries between 0.11 micron and 1 micron because the physical dimensions of a high-voltage device do not allow for the economical reduction in geometries below this range. We believe that there are a limited number of fabs with high-voltage CMOS process technology that are capable of high-volume manufacturing of display drivers.



### *Special Assembly and Testing Requirements*

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

### *Supply Chain Management*

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

### *Need for Higher Level of Integration*

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

### **Products**

We have several principal product lines:

display drivers and timing controllers;

- touch controller ICs;
- TFT-LCD television and monitor semiconductor solutions;
- IP and ASIC service;
- LCOS and MEMS products;

power ICs;

CMOS image sensor product; and

wafer level optics products.

We commenced volume shipments of our first source and gate drivers for large-sized panels in July 2001 and have developed a broad product portfolio of display drivers and timing controllers for use in large-sized TFT-LCD panels. We commenced volume shipments of our first display drivers for use in consumer electronics applications in April 2002, volume shipments of two-chip display drivers for mobile handsets in August 2003 and volume shipments of single-chip display drivers for mobile handsets in August 2004. In September 2004, we commenced volume shipments of our first television semiconductor solutions. We commenced shipping engineering samples of LCOS products in December 2003 and started volume shipments in June 2006. We commenced shipping engineering samples of power ICs in October 2006 and started volume shipments in January 2007. We commenced small quantity commercial shipments of our CMOS image sensor products in April 2009 and started volume shipments in August 2010. We commenced small quantity commercial shipments of our wafer level optics products in December 2009 and started volume shipments in the third quarter of 2011. We commenced our IP and ASIC services in the fourth quarter of 2011. We commenced small quantity commercial shipments of our touch controller products in December 2010 and started volume shipments in the fourth quarter of 2011.

### ***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 ( $1,024 \times 3 = 384 \times 8$ ) and three 256-channel gate drivers ( $768 = 256 \times 3$ ), 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 gray scale, that can be shown by the panel. For example, a 6-bit source driver is capable of generating  $2^6 \times 2^6 \times 2^6 = 2^{18}$ , or 262K colors, and similarly, an 8-bit source driver is capable of generating 16 million colors. Typically, for TFT-LCD panels currently in commercial production, 262K, 16 million and 1 billion colors are supported by 6-bit, 8-bit and 10-bit source drivers, respectively.

***Operational Voltage.*** A display driver operates with two voltages: the input voltage (which enables it to receive signals from the timing controller) and the output voltage (which, in the case of source drivers, is applied to liquid

crystals and, in the case of gate drivers, is used to switch on the TFT device). Source drivers typically operate at input voltages from 3.3 to 1.8 volts and output voltages ranging from 7 up to 24 volts. Gate drivers typically operate at input voltages from 3.3 to 1.8 volts and output voltages ranging from 10 to 50 volts. Lower input voltage saves power and lowers electromagnetic interference, or EMI. Output voltage may be higher or lower depending on the characteristics of the liquid crystal (or diode), in the case of source drivers, or TFT device, in the case of gate drivers.

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

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

*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 types, 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 4Kx2K high-resolution 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 power consumption and support of 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.

For new notebook interface, our eDP 1.1 and eDP 1.2 timing controllers began mass production in 2011 and 2012 respectively. Our eDP 1.3 timing controller entered mass production in 2013 and was also adopted in the world’s lightest notebook by our top-tier notebook brand customer.



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

| <b>Product</b>         | <b>Features</b>   |
|------------------------|---|
| TFT-LCD Source Drivers | <ul style="list-style-type: none"> <li>384 to 1,446 output channels</li> <li>6-bit (262K colors), 8-bit (16 million colors) or 10-bit (1 billion colors)</li> <li>one gamma-type driver</li> <li>two gamma-type driver to improve display quality</li> <li>three gamma-type drivers (RGB independent gamma curve to enhance color image)</li> <li>output driving voltage ranging from 7 upto 24V</li> <li>input logic voltage ranging from standard 3.3V to low power 1.8V and support half VDDA</li> <li>low power consumption and low EMI</li> <li>support COF and COG package types</li> <li>support TTL, RSDS, mini-LVDS (up to 480MHz), cascade modulated driver interface, or CMDI, point-to-point high speed interface and customized interface technologies</li> <li>support dual gate and triple gate panel designs</li> </ul> |
| TFT-LCD Gate Drivers   | <ul style="list-style-type: none"> <li>192 to 1600 output channels</li> <li>output driving voltage ranging from 10 up to 50v</li> <li>input logic voltage ranging from standard 3.3V to low power 1.8V</li> <li>low power consumption</li> <li>support COF and COG package types</li> <li>support dual gate and triple gate panel designs</li> </ul>  |
| Timing Controllers     | <ul style="list-style-type: none"> <li>product portfolio supports a wide range of resolutions, from VGA (640 x 480 pixels) to full HD (1,920 x 1,080 pixels, 1,920 x 1,200 pixels and 3840 x 2160)</li> <li>support TTL, RSDS, mini-LVDS, DETTL, turbo RSDS, CMDI, point-to-point high speed interface and customized output interface technologies</li> <li>input logic voltage ranging from standard 3.3V to low power 1.2V</li> <li>embedded overdrive function to improve response time</li> <li>support CABC to save power and color engine to enhance color and sharpness</li> <li>support TTL, LVDS, eDP, MIPI and V-by-one input interface technologies</li> <li>support dual-gate and triple-gate panel designs</li> </ul>   |

#### *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, 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 content adaptive brightness control, or technology into display drivers in order to extend the battery life.



With new software platforms providing better access to the Internet, smartphones have gained greater popularity among consumers and enjoyed higher growth in recent years. This has also contributed to higher demand for mobile handset displays that have a larger size and higher resolution. In the past 2 years, we offered innovative handset display driver products by providing advanced HVGA (320 x 480), FWVGA (480 x 864), qHD (540 x 960), HD720 (720 x 1280)/ WXGA (800 x 1280), and FHD (1080 x 1920) display driver ICs. We have recently continued to update new products for this mainstream smartphone segment with new features, such as color enhancement and sun-light readability enhancement functions. Few years ago, we believe we developed the first HD720/WXGA display driver with compressed RAM technology, which we believe has led the industry migration to smartphones with higher resolution displays and lower power consumption. In 2013, we further applied the memory compression concept and developed frame buffer compression together with industrial leading AP (application processor) partners to reduce data transmission bandwidth between the AP and display driver IC of Himax. We keep moving forward to develop and provide next generation display driver ICs, such as QHD (1440 x 2560), with higher resolution.

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

| <b>Product</b>                 | <b>Features</b>  |
|--------------------------------|--|
| Mobile Handset Display Drivers | <ul style="list-style-type: none"> <li>· highly integrated single chip embedded with the source driver, gate driver, power circuit, timing controller and memory</li> <li>· suitable for a wide range of resolutions from QQVGA (128 x 160 pixels) to FHD (1080 x 1920 pixels)</li> <li>· support up to 16 million colors</li> <li>· support RGB separated gamma adjustment</li> <li>· support CABC</li> <li>· support color enhancement features including saturation, brightness, and sharpness enhancement</li> <li>· support MIPI interface</li> <li>· support RAM-less, 1/2 RAM, or 1/3 RAM compression technologies</li> <li>· low power consumption and low EMI</li> <li>· fewer external components to reduce costs</li> <li>· slimmer die for compact module to fit smaller mobile handset designs</li> <li>· application specific integrated circuits, or ASIC, can be designed to meet customized requirements</li> </ul> |

#### *Consumer Electronics Products*

We offer source drivers, gate drivers, timing controllers and integrated drivers for consumer electronics products such as tablet PCs, digital cameras, digital video recorders, 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 substrate such as a-TFT, LTPS, AMOLED, IGZO, interfaces, 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 and timing controller, as well as more functional semiconductors such as power circuit and touch controller, combined into a single chip.

The industry trend for display drivers used in medium-sized consumer electronics products is towards 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) and HX8702 (source driver), for use in E-reader devices.

In 2010, we introduced our new 1536CH high channel integrated display solution HX8282. This WSVGA driver used the aggressive process to pave the way for the future development of low-cost tablet.

In 2011, we introduced our new point-to-point display solution including HX8288 (source driver) and HX8896 (timing controller), for use in tablet PCs, and this solution is also suitable for other slim display applications such as Ultrabook.

In 2012, we developed our highly integrated display driver for low power, high resolution IGZO displays used in tablet PCs.

In 2013, we developed our highly integrated standard display driver for automotive HX8298. This driver can support multiple resolutions from WQVGA up to FHD high-end display.

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

| <b>Product</b>             | <b>Features</b>  |
|----------------------------|--|
| TFT-LCD Source Drivers     | <ul style="list-style-type: none"> <li>· 240 to 1,536 output channels</li> <li>· products for analog and digital interfaces</li> <li>· support 262K colors to 16.7 million colors</li> <li>· input logic voltage ranging from standard 3.3V to low power 1.8V</li> <li>· low power consumption and low EMI</li> </ul>  |
| TFT-LCD Gate Drivers       | <ul style="list-style-type: none"> <li>· 96 to 1,600 output channels</li> <li>· input logic voltage ranging from standard 3.3V to low power 1.8V</li> <li>· output driving voltage ranging from 10 to 40V</li> </ul>   |
| TFT-LCD Integrated Drivers | <ul style="list-style-type: none"> <li>· highly integrated single chip embedded with source driver, gate driver, timing controller and power circuit</li> <li>· resolutions include WVGA (846 x 480 pixels), SVGA (800 x 600 pixels), WSVGA (1,024 x 600 pixels), WXGA (1,280 x 800 pixels), and WUXGA(1920 x 1200 pixels)</li> <li>· products for digital interfaces and high speed serial interface</li> <li>· low power consumption</li> <li>· CABC function integrated for backlight power saving</li> </ul> |
| AMOLED integrated Driver   | <ul style="list-style-type: none"> <li>· highly integrated single chip embedded with source driver and timing controller for LTPS and power circuit</li> <li>· resolutions include WVGA(480x800 pixels),FWVGA(480x854 pixels), qHD(540x960 pixels)</li> </ul>  |
| Timing Controllers         | <ul style="list-style-type: none"> <li>· products for digital interfaces/high speed interface</li> <li>· products for Tablet/Netbook/Ultrabook</li> <li>· support various resolutions from 1024x600 pixels to 1920 x1200 pixels</li> </ul>   |

#### ***Touch Controller ICs***

We offer touch controller solutions for capacitive touch panels. Our touch controller solutions are suitable for electronic devices employing touch panel screens of up to 13", such as smartphones, mobile internet devices and tablet PCs. In the third quarter of 2011, we commenced shipping capacitive touch controller ICs to a worldwide brand smartphone customer. In 2013, we expanded our customers list to a lot more well-known smartphone and tablet PC brand customers.

Our capacitive touch controller possesses certain innovations and merits. It could support sensing and tracking of up to ten points. Its embedded micro-controller, single chip solution and no external components contribute to reducing cost for flexible product design. Its auto calibration mechanism can meet strict validation requirements of leading smart phone brands. Our touch controller's proprietary sensor pattern, sensing circuits and algorithms could also enhance noise immunity capability and enable touch panels to work without shielding layer or to work on a single glass structure, which contributes to simplifying the manufacturing process and reducing costs for touch panels.

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

| <b>Product</b>              | <b>Features</b>  |
|-----------------------------|--|
| Capacitive Touch Controller | <ul style="list-style-type: none"> <li>· complete single chip touch controller solutions for handheld devices, supporting smartphones, tablet PCs, and laptop PCs</li> <li>· real multi-point capability support of up to 10 points</li> <li>· mass production with GG, GFF and one glass solution (“OGS”) without shielding layer</li> <li>· support ultra low cost one layer multi-touch (OLM) solution on GF, GG, OGS, or On-cell touch sensors</li> <li>· support advanced functions such as passive stylus, glove, proximity sensor replacement, etc</li> <li>· minimum components: simple, neat, and flexible mechanical design</li> </ul> |

### ***TFT-LCD Television and Monitor Semiconductor Solutions***

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

#### ***TFT-LCD Monitor Chipsets***

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

| <b>Product</b>                      | <b>Features</b>   |
|-------------------------------------|---|
| Monitor Scaler Integrated Solutions | <ul style="list-style-type: none"> <li>· ideal for monitor applications</li> <li>· integrated with high performance ADC and scaler</li> <li>· built-in HDMI 1.4a and DVI receiver</li> <li>· built-in audio digital-to-analog converter</li> <li>· built-in high performance color engine</li> <li>· integrated high speed MCU</li> <li>· integrated with timing control for additional cost-down</li> <li>· input /output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixel.</li> <li>· integrated 2D to 3D conversion</li> <li>· integrated 3D format conversion</li> <li>· G5 1A and 1A1D can use the same PCB and reduce PCBA cost</li> <li>· G5 1A1D can resolve YCbCr color problem of DVI</li> </ul> |

In addition to scaler solutions, we expanded the product offering of monitor chipset solutions in 2013 to unveil the innovative 2D to 3D conversion solutions including RV2H and RV5 Pro. RV2H targets 2D-to-3D video conversion for project application, and RV5 Pro targets at new 3D applications which can convert 2D/3D images into the 3D glasses-free in real time. This compact solution can be implemented in a number of hardware platforms, such as 3D Glasses-free TV, Monitor, Digital signage, DPF, Entertainment machine and Portable DVD. This compact solution has already been designed into products of a number of famous companies. 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 current RV2H conversion and new RV5 Pro solutions:

| <b>Product</b>                    | <b>Features</b> |
|-----------------------------------|-----------------|
| RV5 Pro 3D Glasses-free Solutions | ·               |

- support multi-view (2~9 views) parallax barrier and lenticular lens for 3D auto-stereo glasses-free displays
- the state-of-the-art real 2D as well as 3D depth generator for multi-view controller
- both 2D content (one view) and real 3D content (two views) can be synthesized for multi-view display
- precise disparity control for view synthesis and 3D parameters are configurable
- support auto disparity control mechanism to optimize parallax
- support universal 3D output formatter D
- support Anchor point for position adjustment
- support all 3D format conversion including 2D+Z and 4/8/9 tiled image to 3D multi-view display (A02 version)

| <b>Product</b>                     | <b>Features</b>  |
|------------------------------------|--|
|                                    | <ul style="list-style-type: none"> <li>· support display resolution up to 1920x1200 for LVDS interface and WXGA for TTL interface inter-bridge between MIPI, LVDS and TTL</li> </ul>   |
| RV2H 2D to 3D Conversion Solutions | <ul style="list-style-type: none"> <li>· support HDMI 1.4 3D format input including 3D format</li> <li>· support 2D mode, 2D to 3D mode, 3D to 2D mode and 3D bypass/converter mode</li> <li>· support resolution up to full HD with 10 bits deep color</li> <li>· built-in de-interlace and scaler</li> <li>· built-in 2D to 3D engine</li> <li>· built-in Frame rate conversion which can output 120 Hz frame rate</li> <li>· built-in 64 mega bits SDR chip</li> <li>· TTL interface supports up to 1920 x 1080 RGB 888 resolution</li> <li>· TTL interface supports up to 12 bits RGB/YUV</li> <li>· built-in 3D glass sync and L/R sync signal</li> </ul> |

### ***IP and ASIC Service***

From the fourth quarter of 2011, Himax Media Solutions, our subsidiary, developed a new business segment on IP and ASIC service. It is a brand new model based on our core technology of video display and High Speed Transmission. For video display related, we offer 3D Video and Image Compression/Decompression IP, Super High Resolution IP, MEMC IP and SunLight Readable IP and Technology Licensing. For High Speed Transmission related, we offer HDMI, V-by-One HS, LVDS, eDP, MIPI and High Performance Video ADC Silicon IP (SIP) Licensing. For ASIC service, it is based on a integrated and verified design platform of video display and High Speed Transmission IPs to enable a time-to-market Specification-to-Chip ASIC service.

### ***Video IP***

As an expert player in 2D/3D image and display core technologies solutions, we develop and own unique IPs of image and video applications. The high quality IPs, which are used in various popular multi-media commercial products, can provide our licensees with differentiated products and advantage in time-to-market. The features of IPs are summarized in the following table.

| <b>Product</b>                      | <b>Features</b>   |
|-------------------------------------|---|
| Real 3D Depth Controllable (R3D) IP | <ul style="list-style-type: none"> <li>· state-of-the-art real 3D depth controllable technology for healthy and comfortable 3D</li> <li>· safe disparity angel is configurable and can meet each country's 3D regulation in real 3D mode</li> <li>· precise disparity control for view synthesis and parameters are configurable</li> <li>· support 3D fatigue warning</li> <li>· support various 3D Visual Protection modes</li> <li>· 3D content accommodation error detection and correction</li> <li>· easily integrated into existing Projector, TV, Monitor, Box, DVD, and DPF system SoC with 3D features</li> </ul> |
| 2D to 3D Conversion IP              | <ul style="list-style-type: none"> <li>· state-of-the-art 2D-to-3D conversion algorithms for transforming any 2D video content to 3D video sequence and supporting different 3D display</li> <li>· support auto-scene detection and various scene modes</li> </ul>  |

- precise disparity control for view synthesis and parameters are configurable
- Support configurable stereoscopic density for both modes including in front of screen call pulled and behind the screen call push
- easily integrated into existing Projector, TV, monitor, box, DVD, and DPF system SoC with 3D features



| Product   | Features  |
|---|---|
| Motion Estimation and Motion Compensation (“MEMC”) IP | <ul style="list-style-type: none"> <li>· Including efficient motion estimation, motion compensation, and film mode detection engines to implement dejudder and halo reduction</li> <li>· support 2D &amp; 3D MEMC glasses-free 3D displays based on perfect viewing angle adjustment</li> <li>· support video format: (1) Max. horizontal size: 2048, (2) Max. vertical size: 1200, (3) Min. horizontal size: 640, (4) Min. vertical size: 480, (5) 3D structure supported and (6) 10 bits color depth</li> <li>· video processing engine features: (1) Search range: +/-192(H) and +/-40(V), (2) De-judder and halo-reduction, (3) Auto film mode detection (3:2 and 2:2), (4) FRUC: 24 to120, 24_to 30, 24_to 60, 60_to 120, 50_to 100, 25_to 100 and (5) Demo mode: left/right or top/bottom split FRUC using frame repetition</li> <li>· easily integrated into existing portable DVD, DPF, Pad like, mobile system SoC with 3D features</li> </ul> |
| SunLight Readable IP                                  | <ul style="list-style-type: none"> <li>· improve sunlight readability under bright sunlight environment</li> <li>· smart contrast enhancement processing for shadow, mid-tone and highlight grey level respectively</li> <li>· pixel based contrast adjustment</li> <li>· adapt video content dynamically</li> <li>· support automatic adjustment based on ambient light sensor input</li> <li>· support manual adjustment based on manual enhancement level setting</li> <li>· no frame buffer is required</li> <li>· low power and compact architecture</li> </ul>  |
| Super High Resolution IP                              | <ul style="list-style-type: none"> <li>· high quality resolution up-conversion without image blur or side-effect such as zigzag artifact and ringing artifact</li> <li>· synthesize rich details with texture extraction capability by database-free architecture</li> <li>· support various levels of reality enhance effect</li> <li>· any resolution up-conversion without arbitrary ratio limitation</li> <li>· real-time single-frame conversion, no extra external memory requirement</li> <li>· easily integrated into existing Projector, TV, Monitor, Box, DVD, and Surveillance system SoC with scaler functionality</li> </ul>   |
| Embedded Visual Lossless Compression IP               | <ul style="list-style-type: none"> <li>· proprietary technologies near lossless compression for embedded frame buffer can reduce bandwidth and power consumption for SOC application</li> <li>· compression Ratio: 2x~3x</li> <li>· reduce image storage capacity and transmission time</li> <li>· offer two color domain compression: YUV / RGB</li> <li>· support real-time compress/decompress with low latency delay for video processor application</li> <li>· block-based / frame-based data access encode/decode</li> </ul>  |

*Silicon IP*

We also develop and own unique IPs of high speed transmission. These silicon IPs are not only silicon proven but also “product proven” and are used in various popular media commercial products. We provide our licensees with unique, high quality and cost competitive silicon IPs to reduce risk and accelerate time-to-market. The features of silicon IPs are summarized in the below table:

| Product                          | Features  |
|----------------------------------|---|
| HDMI Transmitter and Receiver IP | · provide configurable HDMI digital controllers and high-speed mixed signal Physical Layer IP (“PHY”) |

| <b>Product</b>   | <b>Features</b>   |
|--|---|
| Mobile Industry Processor Interface (“MIPI”) and Display Serial Interface (“DSI”) IP | <ul style="list-style-type: none"> <li>· fully compliant with HDMI 1.4a specifications and received the ATC certification</li> <li>· fully compliant with the DSI version 1.01</li> <li>· support the physical adapter layer of the D-PHY specification version 1.00</li> <li>· support both command and video modes providing the greatest range of flexibility</li> </ul> |
| VBO IP   | <ul style="list-style-type: none"> <li>· fully compliant with the V-by-One® HS Standard Version 1.3</li> <li>· provide configurable VBO digital controllers and high-speed mixed signal PHY</li> <li>· designed for supporting high-speed video data transmission between the host device and display device, especially UltraHD TV application</li> </ul>                  |
| eDP IP   | <ul style="list-style-type: none"> <li>· fully support eDP v1.3 compliant</li> <li>· support data rate: 2.7Gbps or 1.62Gbps per lane</li> <li>· Low power design for mobile application</li> </ul>  |
| ADC IP   | <ul style="list-style-type: none"> <li>· 8-bit, 210MHz analog IP which is suitable for analog R/G/B or Y/Pb/Pr signal input from PC or consumer product</li> <li>· includes three 210 MHz ADCs with gain and offset control</li> <li>· the supply power for the design is 3.3V while a 1.2V supply is required in the interface between 3.3V and 1.2V digital</li> </ul>    |

#### *ASIC Service*

From 2012, we had successfully completed several ASIC service projects for Japan top TV, Project and HMD makers with advanced and high performance customized video processing chip. All of these chips are implemented with Himax Media Solutions’ proprietary video process platform that includes our video process display IP and high speed transmission IPs. The process nodes adopted for these ASIC are usually 40nm and 55nm processes. From 2013, Himax Media Solutions also release a Hi-TCON platform that aims at high integrated and high performance TV/Monitor/Tablet/Mobile video processor TCON market. Hi-TCON offers a single chip solution of the state-of-art video core and Himax volume-production-proven TCON core.

The following table summarizes the features of our ASIC service:

| <b>Product</b> | <b>Features</b>  |
|----------------|--|
| ASIC Service   | <ul style="list-style-type: none"> <li>· based on our video processor and Hi-TCON platform solutions including video processor and timing controller platform</li> <li>· support video input/output interfaces like LVDS, HDMI, DVI, VBO, Display port, MIPI, MHL, etc.</li> <li>· built-in 8/32-bit microprocessor built-in video processing algorithm like super-high resolution, sun-light readable, MEMC, FRC, etc</li> <li>· built-in 3D feature technologies like 2D-to-3D, Glasses-free 3D, 3D multi-view, 3D visual protection, etc.</li> <li>· support 4K x 2K display</li> </ul> |

- support advanced timing controller technologies like smart contrast enhance, local dimming, EVLC, and energy saving

***LCOS and MEMS Products***

Himax Display, our subsidiary, has contributed to our microdisplay products lines: Color-filter LCOS, Color-sequential LCOS and MEMS.

Himax Display is the market leader of the LCOS industry based on market share in 2012. We believe Himax Display is the only non-captive LCOS company that owned a mass production ready liquid crystal assembly line. We have produced and shipped over 1.5 million units from this ISO certified line. Our customers use our products in various applications such as pico-projector, embedded projector in different applications (cell phone and camcorder), communication, toy projector, and head-mounted-display.

We believe Himax is among the fewer players, including Texas Instruments, in the market offering MEMS microdisplay solutions.

Both technologies have their own merits for different applications in resolution, power consumption, size, cost, optical engine design, and image quality. We provide a rich products family for customers to choose for different applications, since each product has its own most important parameters to select. Himax Display provides choices to customers. The following table shows certain details of our products:

| <b>Product</b>                      | <b>Size and Resolution</b>   |
|-------------------------------------|--|
| Color-Filter LCOS Microdisplays     | <ul style="list-style-type: none"> <li>· 0.28" (320x240 pixels) QVGA</li> <li>· 0.38" (640x360 pixels) nHD</li> <li>· 0.44" (640x480 pixels) VGA</li> <li>· 0.59" (800x600 pixels) SVGA</li> <li>· Customized design</li> </ul>  |
| Color-Sequential LCOS Microdisplays | <ul style="list-style-type: none"> <li>· 0.22" (640 x 360 pixels) nHD</li> <li>· 0.28" (852 x 480 pixels) WVGA</li> <li>· 0.38" (640 x 480 pixels) VGA</li> <li>· 0.37" (800 x 600 pixels) SVGA</li> <li>· 0.37" (1366 x 768 pixels) WXGA</li> <li>· 0.45" (1024 x 768 pixels) XGA</li> <li>· Customized design</li> </ul> |
| MEMS                                | <ul style="list-style-type: none"> <li>· 0.55" (1280 x 800 pixels) WXGA</li> </ul>   |

### ***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. The following table summarizes certain features of our power management IC products:

| <b>Product</b> | <b>Features</b>   |
|----------------|---|
|                | <ul style="list-style-type: none"> <li>· built-in power MOSFET</li> </ul> |

Integrated Multi-Channel Power  
Solutions

for Notebooks

- step-up PWM converter
- charge pump regulator
- LDO regulator
- voltage detector
- gate pulse modulator
- Vcom operational amplifier
- with/without LED drivers
- smart PWM control

| <b>Product</b>  | <b>Features</b>   |
|---|---|
| Integrated Multi-Channel Power Solutions for Monitors | <ul style="list-style-type: none"> <li>· built-in power MOSFET</li> <li>· step-up PWM converter</li> <li>· HV LDO regulator</li> <li>· voltage detector</li> <li>· gate pulse modulator</li> <li>· programmable Vcom voltage / Vcom operational amplifier</li> <li>· level shifter</li> </ul>   |
| Integrated Multi-Channel Power Solutions for TVs      | <ul style="list-style-type: none"> <li>· built-in power MOSFET</li> <li>· step-up PWM converter</li> <li>· step-down PWM converter</li> <li>· charge pump regulator</li> <li>· HV LDO regulator</li> <li>· voltage detector</li> <li>· gate pulse modulator</li> <li>· Vcom operational amplifier</li> <li>· I2C programmable</li> <li>· level shifter</li> </ul> |

### *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. The following table summarizes certain features of our LED drivers products:

| <b>Product</b>           | <b>Features</b>   |
|--------------------------|---|
| WLED Drivers for NB      | <ul style="list-style-type: none"> <li>· 4.5V to 24V input voltage range</li> <li>· built-in 1.3MHz step-up PWM converter (max. boost voltage: 40V)</li> <li>· 8 constant current source channels</li> <li>· capable of driving up to 10 LEDs in serial for each channel</li> </ul>   |
| WLED Drivers for LED MNT | <ul style="list-style-type: none"> <li>· 5V to 33V input voltage range</li> <li>· built-in 2MHz step-up PWM controller</li> <li>· 2/4/8 constant current source channels</li> <li>· up to 200mA per channel</li> <li>· 60V sustainable voltage for LED pins</li> <li>· capable of driving up to 16 LEDs in serial for each channel</li> </ul> |
| WLED Drivers for LED TV  | <ul style="list-style-type: none"> <li>· 8V to 33V input voltage range</li> <li>· 8-channel current sinks</li> <li>· up to 90mA per channel</li> <li>· 60V sustainable voltage for LED pins</li> </ul>  |
| LED Drivers for lighting | <ul style="list-style-type: none"> <li>· universal input range</li> </ul>   |

- no flicker
- ultra low current ripple
- OCC for PF
- Dimmable



**CMOS Image Sensor Products**

Our CMOS image sensor products are designed primarily for camera-equipped mobile devices, such as mobile phones, tablets 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 system-on-chip sensor 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" 1.3 mega pixel, a 1/6" HD, and a 1/5" format 2.0 mega pixel system-on-chip sensor. Based on new pixel architecture, a 1/4" 5 mega pixel, a 1/3.2" 8 mega pixel and a smaller 1/9" HD sensor were designed and phased into production in 2013. Thanks to backside illumination, or BSI technology, a high performance 1/6" Full HD sensor and a new low power consumption 8 mega pixel sensor will be introduced to our customers in early 2014. Besides products in mobile devices, we also develop specialized sensors for automobile and surveillance. Almost all of our CMOS image sensors feature the BrightSense™ technology to achieve a better signal-to-noise ratio in the lowlight or video mode without a decreasing frame rate or increasing power consumption. Embedded in some of our sensors, ClearView™ technology provides the optical restoration engine to enhance the optical performance. In the automobile and surveillance product line, ClearSense™ technology extends the dynamic range by special pixel and readout. We are committed to being a key player in CMOS image sensor business with investments in experienced human resources, an efficient supply chain, and strategic technology developments and partnerships to further increase the performance and features of small and specially designed pixel sensors.

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

| <b>Product</b>                        | <b>Features</b>  |
|---------------------------------------|--|
| 8MP BSI Color Image Sensor            | <ul style="list-style-type: none"> <li>• BSI in 1/3.2" format color type</li> <li>• 8MP at 30 frames per second, support 1080p and 720p at 30 frames per second</li> <li>• high dynamic range supported by alternating row and alternating frame approaches</li> <li>• low power consumption</li> <li>• 10 bit parallel video data port and 4-lane MIPI CSI2 outputs RAW8/10 and RGB565/555/444</li> </ul> |
| 8MP FSI Color Image Sensor            | <ul style="list-style-type: none"> <li>• 1/3.2" format color type</li> <li>• 8MP at 15 frames per second, support 1080p and 720p at 30 frames per second</li> <li>• advanced ADC architecture to keep outstanding SNR</li> <li>• state-of-the-art ultra bright pixel</li> <li>• 10 bit parallel video data port and 2-lane MIPI CSI2 outputs RAW8/10, RGB565/555/444</li> </ul>                            |
| 5MP Color Image Sensor                | <ul style="list-style-type: none"> <li>• 1/4" format color type</li> <li>• 5MP resolution at 30 frames per second, support 720p HD at 83 frames per second and 1080 FHD at 56 frames per second</li> <li>• compact die size design to support small modules</li> <li>• 10 bit parallel video data port and 2-lane MIPI CSI2 outputs RAW8/10, RGB565/555/444</li> </ul>                                     |
| 5MP Color Image Sensor System on Chip | <ul style="list-style-type: none"> <li>• 1/4" format color type</li> <li>• 5MP resolution at 15 frames per second (with MJPEG), support 720p HD at 30 frames per second and 1080 FHD at 15 frames per second</li> </ul>  |

- VCM driver and MJEG engine embedded
- color processing pipeline including lens shading correction, defect correction, edge enhancement, exposure control with backlight compensation, color de-mosaic, color correction, gamma control, and saturation/hue adjustment
- 10 bit parallel video data port and 2-lane MIPI CSI2 outputs RAW8/10, YUV422, RGB565/555/444

- 2.0MP ClearView™ Color Image Sensor
- 1/5” format color type
  - ClearView™ boosts optical performance by lens compensation
  - UXGA YUV output at 15 frames per second, 720p HD resolution at 30 frames per second

| Product  | Features  |
|--|---|
| HD 720p ClearView™ System on Chip  | <ul style="list-style-type: none"> <li>· color processing pipeline including lens correction, defect correction, color de-mosaic, color correction, gamma control, saturation/hue adjustment, and edge enhancement</li> <li>· multiple video formats including YUV422, RGB565, and ITU656</li> <li>· 1/6” format with high sensitivity</li> <li>· ClearView™ boosts optical performance by lens compensation</li> <li>· 720p HD resolution at 30 frames per second</li> <li>· color processing pipeline including lens shading correction, defect correction, edge enhancement, exposure control with backlight compensation, color de-mosaic, color correction, gamma control, and saturation/hue adjustment.</li> <li>· 10 bit parallel video data port and 1-lane MIPI CSI2 outputs RAW8/10, YUV422, RGB565/555/444</li> </ul> |
| 720P Color Image Sensor  | <ul style="list-style-type: none"> <li>· high Definition 720p CIS</li> <li>· 1/9” format, 1.4um pixel</li> <li>· 30FPS RAW10 and RAW8</li> <li>· arbitrary cropping at vertical direction</li> <li>· color processing pipeline including lens correction , Dark Shading compensation, BPC, raw denoise with G1/G2 balance</li> </ul>  |
| VGA BrightSense™ System on Chip  | <ul style="list-style-type: none"> <li>· 1/13” format color type</li> <li>· VGA YUV output at 30 frames per second</li> <li>· color processing pipeline including lens correction, defect correction, color de-mosaic, color correction, gamma control, saturation/hue adjustment, and edge enhancement</li> <li>· automatic low light and frame rate control</li> <li>· 1-lane MIPI CSI2 outputs RAW, YUV422, RGB565/555/444</li> </ul>  |
| 1.3MP ClearSense™ EDR Color Image Sensor for Automotive and Surveillance | <ul style="list-style-type: none"> <li>· 1/4” format with ultra high sensitivity</li> <li>· ClearSense™ achieves higher dynamic range in color up to 84dB with on-chip tone mapping</li> <li>· 800p and 720p resolution at 30 frames per second</li> <li>· Flexi™ engine automatically controls dynamic range, exposure, gain, and white balance to balance color fidelity and contrast</li> <li>· color processing pipeline including lens shading correction, defect correction, edge enhancement, color interpolation and correction, gamma control, and saturation/hue adjustment.</li> <li>· anti-blooming and dark sun cancellation</li> <li>· built-in low dropout regulator and power on reset</li> <li>· 10 bit parallel video data port supports RAW, YUV422, and RGB565/555/444</li> </ul>                             |
| NTSC/PAL Color Image System on Chip for Automotive and Surveillance      | <ul style="list-style-type: none"> <li>· high sensitivity, low noise VGA sensor operating up to 60FPS</li> <li>· visible and near infrared sensitivity</li> <li>· operation up to 105°C</li> <li>· ultra-compact automotive package</li> <li>· advanced defect correction with built-in temperature sensor</li> </ul>   |

- embedded ISP with programmable automatic exposure and white balance
- optical alignment pixel with crop and zoom to native resolution
- 4Kb OTP for sensor initialization, module storage, and overlay setting
- multi-color static overlay engine

### ***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 Surface-Mount Technology or SMT reflow process possible. We offer entire optical solutions for customers who need compact and easy-to-handle optical products on their electronic devices.

Combining traditional optical lens design, precise mold control and semiconductor manufacturing expertise, our VGA wafer level optics products have been adopted by tier-1 camera module makers and mobile phone brands. The double-side manufacture process makes the lens structure more reductive and achieves better performance. With the innovative process and specific structure, our wafer level optics products enhance the performance of camera modules.

Besides imaging lens, our technology is also adapted to form microstructure such as lens array and lenticular for advanced application in digital optics field.

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

| <b>Product</b>                     | <b>Features</b>  |
|------------------------------------|--|
| VGA 1 element wafer level lens     | <ul style="list-style-type: none"> <li>· for 1/11" VGA CIS (2.0μm pixel pitch)</li> <li>· one-element and two-surface design for cost-competitive market</li> <li>· double-side manufacture process</li> <li>· already in mass production</li> </ul>   |
| VGA 1 element wafer level lens     | <ul style="list-style-type: none"> <li>· for 1/13" VGA CIS (1.75μm pixel pitch)</li> <li>· one-element and two-surface design for cost-competitive market</li> <li>· double-side manufacture process</li> <li>· already in mass production</li> </ul>  |
| HD/1.3M 2 element wafer level lens | <ul style="list-style-type: none"> <li>· for 1/9" 1.3M/HD CIS (1.4μm pixel pitch)</li> <li>· two-element and four-surface design for cost-competitive market</li> <li>· double-side manufacture process</li> </ul>   |
| Array Lens                         | <ul style="list-style-type: none"> <li>· 4*4 Array lens, co-developing with multiple tier-one partners, provide many and varied imaging effects such as stereo, re-focusing, super resolution and perspective shift</li> <li>· 2*2 Array lens, a cost effective solution for array camera, have same features as 4*4 array camera and provide custom array lens solution for customer.</li> <li>· Micro lens array provides custom solution for light field camera.</li> </ul> |

### **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 transistor-transistor logic (“TTL”), Reduced Swing Differential Signaling (“RSDS”), mini low-voltage differential signaling (“LVDS”), dual-edge TTL (“DETTL”), turbo Reduced Swing Differential Signaling (“RSDS”), Mobile Industry Processor Interface (“MIPI”) and other customized interfaces, in our display drivers. Moreover, we are developing additional driver interfaces for special applications with optimized speed, lower EMI and higher system stability.

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

## Customers

Our customers for display drivers are primarily panel manufacturers and mobile device module manufacturers, who in turn design and market their products to manufacturers of end-use products such as notebook computers, desktop monitors, televisions, mobile handsets and consumer electronics products. We may sell our products through agents or distributors for certain products or in certain regions. As of December 31, 2013, we sold our products to more than 200 customers. In 2011, 2012 and 2013, Innolux and its affiliates, accounted for 40.8%, 34.2% and 22.6% of our revenues, respectively; customer A and its affiliates, accounted for 5.7%, 11.7% and 16.9% of our revenues, respectively.

Set forth below (in alphabetical order) are our ten largest customers (and their affiliates) based on revenues for the year ended December 31, 2013:

BOE Technology Group Co., Ltd.  
Chunghwa Picture Tubes, Ltd.  
Innolux Corporation  
Mitsudi (HK) Company  
Perfect Display Limited  
Samsung Display Dongguan CO., LTD.  
Shanghai Tianma Microelectronics  
Shenzhen China Star Optoelectronics Technology Co., Ltd.  
Truly Semiconductors Ltd.  
Welltek Electronics (Hong Kong) Limited

Certain of our customers provide us with a long-term (twelve-month) forecast plus three-month rolling non-binding forecasts and confirm orders 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, panel manufacturers using LTPS or OLED, or Oxide technologies, mobile display module and mobile device manufacturers and camera module houses 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 and also create customized features for end brand customers. Our end market for large-sized panels is concentrated among a limited number of major panel manufacturers. We also market our products directly to monitor, notebook and mobile device manufacturers so that our products can be qualified for their specifications and designed into their products. Furthermore, we extend our business development with system and ODM companies by using strategic ASIC business model to not only develop ASIC product based on customer specification but also jointly research and develop new technologies to meet customers' future product demand. Besides, we will form a strategic partnership with tier-1 customers for our LCOS microdisplays to penetrate into an emerging market. We believe we need this closed relationship with our customers to create a new application eco system.



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 offices in Tainan, Hsinchu, Taipei, Taiwan; and Shenzhen and Suzhou, China. We have other sales and technical support offices in Hefei, Beijing, Shanghai, Fuzhou, Foshan, Fuding, Ningbo, Wuhan, Qindao and Xiamen, China; Tokyo, Japan; Cheonan and Suwon, South Korea; and Irvine and Campbell, California, USA, all in close proximity to our customers. For certain products or regions, we may sell our products through agents or distributors.

Our sales and marketing team possesses a high level of technical expertise and industry knowledge used to support a lengthy and complex sales process. This includes a highly trained team of product managers and field applications engineers. Our team is equipped with extensive strategic marketing experience and a strong capability to identify market trends. We also provide technical support and assistance to potential and existing customers in system/SoC architecture, designing, testing and qualifying display modules, camera modules and end application systems that incorporate our products and ASICs. 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 fab under Himax Display primarily for performing manufacturing processes for our LCOS microdisplays. Moreover, for better integration, we also established an in-house color filter facility under Himax Taiwan, which commenced shipments from 2010. This in-house facility provides color filter for CMOS image sensor products with over 50 million optics shipment record to tier-1 customers and LCOS products. The color filter line is a critical and unique process for our proprietary single-panel color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our LCOS products and creates value for our customers. In addition, we have established an in-house wafer level optics facility under Himax Taiwan for the key process of our wafer level optics products, which commenced small-scale shipments in December 2009.

### ***Manufacturing Stages***

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

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

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

**Chip Probe Testing:** Each 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. By 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 2014 and will expire in February 2017. In February 2006, we received ISO 14001 certification, which was renewed in January 2012 and will expire in January 2015. In addition, in March 2007, we received IECQ QC 080000 certification, which was renewed in March 2013 and will expire in March 2016, and OHSAS 18001 certification, which was renewed in January 2012 and will expire in January 2015.

#### **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, Globalfoundries Singapore, SMIC and Maxchip in the past few years and have also established relationships with UMC, HHNEC and PSC. 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., Chipmore International trading company Ltd., Nepes Corporation and King Yuan Electronics 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 a 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.  
Macronix International Co., Ltd.  
Maxchip Electronics Corp.  
Powerchip Technology Corporation  
Shanghai Hua Hong NEC Electronics Company, Ltd.  
Semiconductor Manufacturing International Corporation  
Taiwan Semiconductor Manufacturing Company Limited  
United Microelectronics Corporation  
Vanguard International Semiconductor Corporation

**Gold Bumping**

Chipbond Technology Corporation  
Chipmore International Trading Company Ltd.  
ChipMOS Technologies Inc.  
LB Semicon Co., Ltd.  
Nepes Corporation

**Processed Tape for TAB Packaging**

LG Innotek Co., Ltd.  
Simpal Electronics Co., Ltd.  
Stemco., Ltd.  
Sumitomo Metal Mining Package Material Co., Ltd.

**Assembly and Testing**

Ardentec Corporation  
Advanced Semiconductor Engineering Inc.  
Chipbond Technology Corporation<sup>(1)</sup>  
Chipmore International Trading Company Ltd.  
ChipMOS Technologies Inc.  
Global Testing Corporation  
Greatek Electronics Inc.  
Jiangsu Changjiang Electronics Technology Co., Ltd.  
King Yuan Electronics Co., Ltd.  
Micro Silicon Electronics Corp.  
Nepes Corporation  
Orient Semiconductor Electronics Ltd.  
Siliconware Precision Industries Co., Ltd.  
Taiwan IC Packaging Corporation

**Chip Probe Testing**

Ardentec Corporation  
Chipbond Technology Corporation  
Chipmore International Trading Company Ltd.  
ChipMOS Technologies Inc.  
King Yuan Electronics Co., Ltd.  
Global Testing Corporation  
Greatek Electronics Inc.  
Micro Silicon Electronics Corp.  
Nepes Corporation

**Intellectual Property**

As of March 31, 2014, we held a total of 2,287 patents, including 927 in Taiwan, 814 in the United States, 489 in China, and 57 in other countries. The expiration dates of our patents range from 2019 to 2033. We also have a total of 480 pending patent applications in Taiwan, 215 in the United States and 258 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 the competition in our industry include:

- customer relations;
- product performance;
- design customization;
- development time;

- product integration;
- technical services;
- manufacturing costs;
- supply chain management;
- timely delivery;
- economies of scale; and
- broad product portfolio.

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

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

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

Our monitor semiconductor solutions compete against solutions offered by a significant number of semiconductor companies including Mstar Semiconductor, Inc., Novatek Microelectronics Corp., and Realtek Semiconductor Corp. For 2D to 3D conversion solutions, we face competition from Mediatek Corp. and Mstar Semiconductor, Inc.

For LCOS products, we face competition primarily from digital lighting processing, or DLP, projectors incorporating Texas Instruments Incorporated's digital light processing technology. We also face competition from a few other mobile projector technologies, including OmniVision, which acquired Aurora Systems in 2010, Syndiant Inc., Kopin Corporation Inc. and Microvision Inc., a company providing laser-scanning projector solutions. For MEMS products, we face competition primarily from TI's DLP, Epson's 3LCD technology, eMagin, MicroOLED and Sony.

For power ICs, we face competition from Taiwan companies including Richtek Technology Corporation, Global Mixed-mode Technology Inc., Advanced Analog Technology, Inc and On-Bright Electronics Co. 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 Galaxycore Shanghai Limited Corporation, Omnivision Technologies Inc., Samsung Electronics Co. Ltd., Sony Corporation and SK Hynix Inc.

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

### **Insurance**

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



## **Environmental Matters**

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

## **4.C. Organizational Structure**

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries and affiliates as of March 31, 2014.

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The following table sets forth summary information for our subsidiaries as of March 31, 2014.

| Subsidiary                              | Main Activities  | Jurisdiction of Incorporation | Percentage of Our Ownership Interest |       |
|---|--|-------------------------------|--------------------------------------|-------|
| Himax Technologies Limited              | IC design and sales  | ROC                           | 100.0                                | %     |
| Himax Technologies Korea Ltd.           | Sales  | South Korea                   | 100.0                                | %     |
| Himax Semiconductor, Inc.               | IC design and sales  | ROC                           | 100.0                                | %     |
| Himax Technologies (Samoa), Inc.        | Investments  | Samoa                         | 100.0                                | % (1) |
| Himax Technologies (Suzhou) Co., Ltd.   | Sales  | PRC                           | 100.0                                | % (2) |
| Himax Technologies (Shenzhen) Co., Ltd. | Sales  | PRC                           | 100.0                                | % (2) |
| Himax Display, Inc.                     | LCOS and MEMS design, manufacturing and sales                                    | ROC                           | 76.7                                 | % (1) |
| Integrated Microdisplays Limited        | LCOS sales   | Hong Kong                     | 76.7                                 | % (3) |
| Himax Display (USA) Inc.                | MEMS design  | California, USA               | 76.7                                 | % (3) |
| Himax Analogic, Inc.                    | IC design and sales  | ROC                           | 83.2                                 | % (1) |
| Himax Imaging, Inc.                     | Investments  | Cayman Islands                | 100.0                                | %     |
| Himax Imaging, Ltd.                     | IC design and sales  | ROC                           | 88.1                                 | % (4) |
| Himax Imaging Corp.                     | IC design  | California, USA               | 88.1                                 | % (5) |
| Argo Limited                            | Investments  | Cayman Islands                | 100.0                                | %     |
| Tellus Limited                          | Investments  | Cayman Islands                | 100.0                                | % (6) |
| Himax Media Solutions, Inc.             | TFT-LCD television and monitor chipset operations, ASIC service and IP Licensing | ROC                           | 92.4                                 | % (7) |
| Harvest Investment Limited              | Investments  | ROC                           | 100.0                                | % (1) |
| Himax Technologies Japan Ltd.           | Sales  | Japan                         | 100.0                                | %     |
| Himax Semiconductor (Hong Kong) Limited | Investments  | Hong Kong                     | 100.0                                | %     |

(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 76.7% ownership of Himax Display, Inc.

(4) Indirectly, as to 80.5% through our 100.0% ownership of Himax Imaging, Inc. and as to 7.6% through our 100.0% ownership of Himax Technologies Limited.

(5) Indirectly, through our 88.1% ownership of Himax Imaging, Ltd.

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

(7) Directly, as to 22.0%, and indirectly, as to 70.4% through our 100.0% ownership of Himax Technologies Limited.



#### **4.D. Property, Plant 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, Ningbo and Wuhan, China; Tokyo, Japan; Cheonan and Suwon, South Korea; and Irvine and Campbell, 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 have established under Himax Taiwan an in-house wafer level optics facility for the key process of our products, with 1,171 square meters of floor space in a building leased from Innolux, which already produced and shipped over 50 million optics to tier-1 customer from 2010. We have also expanded certain facilities for LCOS and wafer level optics products to accommodate new customers and new applications located at our headquarters in Tainan, Taiwan. In addition, Himax Taiwan owns and operates a fab with 1,431 square meters of floor space in a building leased from Innolux in Tainan, where it established an in-house color filter facility that commenced shipments from 2010. This in-house facility provides color filter for CMOS image sensor and LCOS products. 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 primarily used in desktop monitors, notebook computers and televisions, and display drivers for small and medium-sized TFT-LCD panels, which are primarily used in mobile handsets and consumer electronics products such as tablet PCs, netbook computers (typically ten inches or below in diagonal measurement), digital cameras, mobile gaming devices, portable DVD players, digital photo frames, head-mounted-displays and car navigation displays. We also offer display drivers for panels using OLED technology and LTPS technology. In addition, we are expanding our product offerings to include non-driver products such as timing controllers, touch controller ICs, TFT-LCD television and monitor semiconductor solutions, LCOS microdisplays solutions, power ICs, CMOS image sensors and wafer level optics products. For display drivers and display-related products, our customers are panel manufacturers, agents or distributors, module manufacturers and assembly houses. We also work with camera module manufacturers, optical engine manufacturers, and television system manufacturers for various non-driver products

We commenced operations through our predecessor, Himax Taiwan, in June 2001. We must, among other things, continue to expand and diversify our customer base, broaden our product portfolio, maintain our leading technology position, achieve additional design wins and manage our costs to partially mitigate declining average selling prices and any other market risks 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 with the exception of manufacturing of LCOS microdisplay and wafer level optics products, which we manufacture through our own factories. We are able to take advantage of the economies of scale and the specialization of our third-party 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. For LCOS microdisplay and wafer level optics products, our in-house factories enable us to protect our proprietary technologies and manufacturing expertise in the effort to further expand these businesses.

As our semiconductors are critical components of flat panel displays, our industry is closely linked to the trends and developments of the flat panel display industry, in particular, the TFT-LCD panel segment. The majority of our revenues in 2012 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 over 80% of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclical and price fluctuations could negatively impact our business or results of operations.” The revenue expansion of our non-driver products as well as TFT-LCD product trending toward high resolution and any other new product introduction help to mitigate these risks.

### 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:

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

### Average Selling Prices

Our performance is affected by the selling prices of each of our products. We price our products based on several factors, including manufacturing costs, life cycle stage of the product, competition, technical complexity of the product, size of the purchase order and our relationship with the customer. We typically are able to charge the highest

price for a product when it is first introduced. Although from time to time we are able to raise our selling prices during times of supply constraints, our average selling prices typically decline over a product's life cycle, which may be offset by changes in conditions in the semiconductor industry such as constraints in foundry capacity. The general trend in the semiconductor industry is for the average selling prices of semiconductors to decline over a product's life cycle due to competition, production efficiencies, emergence of substitutes and technological obsolescence. Our cost reduction efforts also contribute to this decline in average selling prices. See "Cost of Revenues and Cost Reductions."

Our average selling prices are also affected by the cyclical nature of the TFT-LCD panel industry. Any downward pricing pressure on TFT-LCD panel manufacturers could result in similar downward pricing pressure on us. During periods of declining average selling prices for TFT-LCD panels, TFT-LCD panel manufacturers may also decrease capacity utilization and sell fewer panels, which could depress demand for our display drivers. For example, in the second half of 2008, as a result of the severe economic downturn and the weakening of consumer spending, there was an over-supply of large-sized TFT-LCD panels. Many TFT-LCD panel manufacturers experienced a decrease in prices of large-sized TFT-LCD panels and reduced capacity utilization significantly, which in turn resulted in strong downward pricing pressure on and a decrease in demand for our products, particularly in late 2008 and early 2009. While there was a rebound in demand for TFT-LCD panels in the second quarter of 2009, the growth in output of TFT-LCD panels has been limited by the shortage of certain components for TFT-LCD panels. Our product pricing remained weak in 2009. In the second half of 2010, the TFT-LCD panel industry suffered again from an over-supply due to a high inventory level built up previously, which significantly decreased our sales to the TFT-LCD panel industry. In the second half of 2011, the demand of TFT-LCD panels was affected by the uncertain global economic conditions by lowering capacity utilization for large panel products. Because the demand was lower than originally anticipated, ASP pressure arose for large-sized applications during the traditional peak season. In addition, our average selling prices are affected by the size and bargaining power of our customers. The merger of CMO, the predecessor of Innolux and TPO could negatively affect our ability to maintain, if not raise, our selling prices. In addition, as new China panel makers emerge in the marketplace and continue to expand their capacity, China panel makers' bargaining power will increase accordingly, negatively impacting our average selling price. Our average selling prices are also affected by the packaging type our customers choose as well as the level of product integration. See "Product Mix" below. Lastly, competition level affects our average selling prices as well. For example, as competitors have started to enter into the smartphone driver IC space and compete aggressively to get market share since the second quarter of 2012, average selling prices of smartphone driver IC for mid to low-end resolution have been under pressure since then. 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 stimulate demand and thereby drive sales and TFT-LCD panel products trending toward higher resolution which creates a higher barrier of entry, less competition and higher profit margins.

### ***Unit Shipments***

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

### ***Product Mix***

The proportion of our revenues that is generated from the sale of different product types, also referred to as product mix, also affects our average selling prices, revenues and profitability. Our display driver products vary depending on, among other things, the number of output channels, the level of integration and the package type. Variations in each of these specifications could affect the average selling prices of such products. For example, the trend for display drivers for use in large-sized panels is toward products with a higher number of channels, which typically command higher average selling prices than traditional products with a lower number of channels. However, panels that use higher-channel display drivers typically require fewer display drivers per panel. As a result, our profitability will be adversely affected to the extent that the decrease in the number of display drivers required for each panel is not offset by increased total unit shipments and/or higher average selling prices for display drivers with a higher number of



channels. The level of integration of our display drivers also affects average selling prices, as more highly integrated chips typically have higher selling prices. Additionally, average selling prices are affected by changes in the package types used by our customers. For example, the chip-on-glass package type typically has lower material costs because no processed tape is required. Moreover, our different non-driver products vary in average selling prices and costs.

The proportion of non-driver business would also affect our financial position and results of operations. For the past three years, we have experienced operating losses from our non-driver business. This was partly due to low sales volume during these periods that led to insufficient revenue to fully cover expenses such as research and development and operating expenses. We expect; however, to ramp up the volume production and sales of our non-driver products in the future and generate positive operation income from such non-driver products. In addition, given that our non-driver products have higher gross margins and higher growth potential than our driver products, we expect the overall profit margin across our product platform to improve.

### ***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:

1 introduce new models to improve the cost and/or performance of their existing products or to expand their product portfolio;

1 establish new fabs and seek to qualify existing or new component suppliers; and

1 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 roadmaps 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 2011, 2012 and 2013 was 80.2%, 76.9% and 75.1%, respectively. In 2013, as a percentage of Himax Taiwan's total manufacturing costs, the cost of wafer fabrication was 56.0%, the cost of processed tape was 6.0%, the cost of assembly and testing was 37.3% and overhead was 0.7%. Our cost of revenues may increase as a result of an increase in raw material prices, any failure to obtain sufficient foundry, assembly or testing capacity or any shortage of processed tape or failure to improve our manufacturing utilization rate or production yield. As a result, our ability to manage our wafer fabrication costs, costs for processed tape, and assembly and testing costs is critical to our performance. In addition, to mitigate declining average selling prices, we aim to reduce unit costs by, among other things:

1 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);

1 improving manufacturing yields through our close collaboration with our semiconductor manufacturing service providers and in our in-house manufacturing facilities; and

1 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.

### ***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 and seek for new manufacturing service providers in case of any manufacturer's capacity shortage. 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 non-vested shares to employees.

*Restricted Share Units (RSUs).* We adopted two long-term incentive plans in October 2005 and September 2011, respectively, which permit 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. The 2005 plan was terminated in October 2010. We recognized share-based compensation expenses under the long-term incentive plan totaling \$6.8 million, \$8.2 million and \$9.7 million in 2011, 2012 and 2013, respectively. See “ Critical Accounting Policies and Estimates Share-Based Compensation Expenses.” Of the total share-based compensation expenses recognized, \$2.9 million, \$6.3 million and \$7.8 million in 2011, 2012 and 2013, respectively, were settled in cash. We 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, 2011, 2012 and 2013 as reflected in our consolidated financial statements.

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 were 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 were settled by cash in the amount of \$6.5 million on the grant date, with the remainder vesting equally on each of September 30, 2010, 2011 and 2012, which will be settled by our ordinary shares, subject to certain forfeiture events.

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

We made grants of 2,727,278 RSUs to our employees on September 28, 2011. The vesting schedule for such RSU grants is as follows: 97.36% of the RSU grants vested immediately and were settled by cash in the amount of \$2.9 million on the grant date, with the remainder vesting equally on each of September 30, 2012, 2013 and 2014, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 5,522,279 RSUs to our employees on September 26, 2012. The vesting schedule for such RSU grants is as follows: 58.36% of the RSU grants vested immediately and were settled by cash in the amount of \$6.3 million on the grant date, with the remainder vesting equally on each of September 30, 2013, 2014 and 2015, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 867,771 RSUs to our employees on September 26, 2013. The vesting schedule for such RSU grants is as follows: 88.90% of the RSU grants vested immediately and were settled by cash in the amount of \$7.8 million on the grant date, with the remainder vesting equally on each of September 30, 2014, 2015 and 2016, 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 28, 2011, September 26, 2012 and September 26, 2013 was \$1.10, \$1.95 and \$10.15 per ADS, respectively, which was based on the trading price of our ADSs on that day.

### ***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 was 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 could 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 at rates set at a certain percentage of the amount utilized in qualifying research and development, personnel training expenses, purchases of qualifying machinery and investments in the newly emerging, important and strategic industries; provided that the shareholders' meeting of such ROC companies did not resolve to forfeit the shareholders' tax credit benefit in exchange for such ROC companies' five-years tax holiday. The balance of unused investment tax credits totaled \$39.4 million, \$22.8 million and \$6.0 million as of December 31, 2011, 2012 and 2013, respectively.

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

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 was required to 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, January 1, 2008 and January 1, 2014 and expired or will expire on March 31, 2009, December 31, 2010, December 31, 2012 and December 31, 2018, respectively. In addition, beginning January 1, 2009 and January 1, 2014, Himax Semiconductor became entitled to two five-year tax exemption expired or will expire on December 31, 2013 and December 31, 2018, respectively. While the ROC Statute for Upgrading Industries expired at the end of 2009, under a grandfather clause we have continued to enjoy the five-year tax holiday since the relevant investment plans were approved by the ROC tax authority before the expiration of the Statute. The effect of such tax exemption was an increase on net income and basic and diluted earnings per share attributable to our stockholders of \$0.8 million, \$0.002 and \$0.002, respectively, for the year ended December 31, 2011, \$2.9 million, \$0.01 and \$0.01 for the year ended December 31, 2012 and \$2.4 million, \$0.01 and \$0.01 for the year ended December 31, 2013. No such tax exemption is provided for under the newly adopted Statute for Industrial Innovation.

## **Description of Certain Statements of Income Line Items**

### ***Revenues***

Historically, we have generated revenues from sales of display drivers for large-sized applications, display drivers for mobile handsets and display drivers for consumer electronics products. In addition, our product portfolio includes operational amplifiers, timing controllers, touch controller ICs, TFT-LCD television and monitor semiconductor solutions, LCOS microdisplay solutions, power ICs, CMOS image sensors and wafer level optics products, 2D to 3D conversion solutions, ASIC service and IP licensing.

Display drivers for large-sized applications had been the largest source of revenues for us before 2013, but in 2013, display drivers for mobile handsets applications have been the largest source of revenues, we expect display drivers for consumer electronics applications and other non-driver products to increase in revenue contribution in the future. Our revenues generated from sales of display drivers for large-sized applications decreased in 2011 and 2013 both in absolute amount and as a percentage of our total revenues, primarily due to the significant decrease in sales to Innolux as a result of the impact of the change of purchase policy by Innolux to diversify its display driver supply base from 2010 and the impact of the global economic downturn in 2013. However, our revenues generated from sales of display drivers for large-sized applications increased in 2012 due to the increased sales to customers in China. Our revenues generated from sales of each of display drivers for mobile handsets applications, display drivers for consumer electronics applications and other non-driver products increased in 2011, 2012 and 2013, primarily due to our increased market share for certain products, the larger market size for certain applications and a wider market adoption for some non-driver products.



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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,<br>2011    |                              |   | 2012       |                              |   | 2013       |                              |   |
|---|------------------------------------|------------------------------|---|------------|------------------------------|---|------------|------------------------------|---|
|   | Amount                             | Percentage<br>of<br>Revenues |   | Amount     | Percentage<br>of<br>Revenues |   | Amount     | Percentage<br>of<br>Revenues |   |
|   | (in thousands, except percentages) |                              |   |            |                              |   |            |                              |   |
| Display drivers for large-sized applications          | \$ 270,372                         | 42.7                         | % | \$ 305,247 | 41.4                         | % | \$ 228,927 | 29.7                         | % |
| Display drivers for mobile handsets applications      | 169,248                            | 26.8                         |   | 177,175    | 24.0                         |   | 232,019    | 30.1                         |   |
| Display drivers for consumer electronics applications | 112,836                            | 17.8                         |   | 151,689    | 20.6                         |   | 183,554    | 23.8                         |   |
| Others <sup>(1)</sup>                                 | 80,565                             | 12.7                         |   | 103,144    | 14.0                         |   | 126,239    | 16.4                         |   |
| Total   | \$ 633,021                         | 100.0                        | % | \$ 737,255 | 100.0                        | % | \$ 770,739 | 100.0                        | % |

Note: (1) Includes, among other things, timing controllers, touch controller ICs, TFT-LCD television and monitor chipsets, LCOS projector solutions, power management IC, CMOS image sensors, programmable gamma OP, wafer level optics products, 2D to 3D conversion solutions, scaler, ASIC service and IP licensing.

A limited number of customers account for substantially all our revenues. Innolux and its affiliates accounted for 40.8%, 34.2% and 22.6% of our revenues in 2011, 2012 and 2013, respectively. Sales to Innolux and its affiliates further decreased both in absolute amount and as a percentage of our total revenues, primarily due to the change of purchase policy by Innolux to diversify its display driver supply base and our increased sales to China customers.

|                               | Year Ended December 31,<br>2011    |                              |   | 2012       |                              |   | 2013       |                              |   |
|-------------------------------|------------------------------------|------------------------------|---|------------|------------------------------|---|------------|------------------------------|---|
|                               | Amount                             | Percentage<br>of<br>Revenues |   | Amount     | Percentage<br>of<br>Revenues |   | Amount     | Percentage<br>of<br>Revenues |   |
|                               | (in thousands, except percentages) |                              |   |            |                              |   |            |                              |   |
| Innolux and its affiliates    | \$ 258,156                         | 40.8                         | % | \$ 251,974 | 34.2                         | % | \$ 173,976 | 22.6                         | % |
| Customer A and its affiliates | 35,908                             | 5.7                          |   | 86,069     | 11.7                         |   | 130,259    | 16.9                         |   |
| Others                        | 338,957                            | 53.5                         |   | 399,212    | 54.1                         |   | 466,504    | 60.5                         |   |
| Total                         | \$ 633,021                         | 100.0                        | % | \$ 737,255 | 100.0                        | % | \$ 770,739 | 100.0                        | % |

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. Our sales to panel makers in China grew significantly in 2011, 2012 and 2013 due to the Chinese panel maker business expansion which started in



2011. These sales have become a significant portion of our revenue.

We derive substantially all of our revenues from sales to Asia-based customers whose end products are sold worldwide. In 2011, 2012 and 2013, approximately 62.4%, 48.4% and 36.8% of our revenues, respectively, were from customers headquartered in Taiwan and approximately 33.1%, 45.4% and 52.0% of our revenues, respectively, were from customers headquartered in China. 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 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:

1 cost of wafer fabrication;

1 cost of processed tape used in TAB packaging;

1 cost of gold bumping, assembly and testing; and

1 other costs and expenses.

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

### *Research and Development Expenses*

Research and development expenses consist primarily of research and development employee salaries, including related employee welfare costs, costs associated with prototype wafers, processed tape, masks, molding 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. As a percentage of revenues, our research and development expenses in 2011, 2012 and 2013 were 12.4%, 9.6% and 10.4%, respectively.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of salaries of general and administrative employees, including related employee welfare costs, depreciation on buildings, office furniture and equipment, rent and professional fees. We anticipate that our general and administrative expenses will increase in absolute dollar amounts as we expand our operations, hire additional administrative personnel, incur depreciation expenses in connection with the increase in office equipment, 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 collectability 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 2011, we recognized net recoveries of previously considered doubtful accounts from SVA-NEC of \$1.5 million. In 2012, we did not recognize any bad debt expense. In 2013, we recognized bad debt expense of \$0.2 million.

### *Sales and Marketing Expenses*

Our sales and marketing expenses consist primarily of salaries of sales and marketing employees, including related employee welfare costs, amortization expenses for the acquired intangible assets related to the acquisition of Wisepal in 2007, travel expenses and product sample costs. We expect that our sales and marketing expenses will increase in

absolute dollar amounts over the next several years. However, we believe that as we continue to achieve greater economies of scale and operating efficiencies, our sales and marketing expenses may decline over time as a percentage of our revenues.

### *Share-Based Compensation Expenses*

Our share-based compensation expenses consist of various forms of share-based compensation that we have historically issued to our employees and consultants, as well as share-based compensation issued to employees, directors and service providers under our 2005 and 2011 long-term incentive plans, and the 2005 plan was terminated in October 2010. 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. Under the long-term incentive plan, we granted RSUs on December 30, 2005 to our employees and directors and again on September 29, 2006, September 26, 2007, September 29, 2008, September 28, 2009, September 28, 2010, September 28, 2011, September 26, 2012 and September 26, 2013 to our employees. Share-based compensation expenses recorded under the long-term incentive plan totaled \$6.8 million, \$8.2 million and \$9.7 million in 2011, 2012 and 2013, respectively. See “Critical Accounting Policies and Estimates Share-Based Compensation” for further discussion of the accounting of such expenses.

### *Income Taxes*

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

Our effective income tax rate was 43.4% in 2011, 23.9% in 2012 and 25.8% in 2013, respectively.

ROC law offers preferential tax treatments to industries that are encouraged by the ROC government. The ROC Statute for Upgrading Industries, which expired at the end of 2009, entitled companies to tax credits for expenses relating to qualifying research and development, personnel training expenses, purchases of qualifying machinery and investments in the newly emerging, important and strategic industries; provided that the shareholders’ meeting of such ROC companies did not resolve to forfeit the shareholders’ tax credit benefit in exchange for such ROC companies’ five-year tax holiday. 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 could be applied without limitation to the total amount of the income tax payable) was 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 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 \$39.4 million, \$22.8 million and \$6.0 million as of December 31, 2011, 2012 and 2013, respectively. On May 12, 2010, the Statute for Industrial Innovation was promulgated in the ROC, which became effective on the same date except for the provision relating to tax incentives which went into effect retroactively on January 1, 2010. Compared to the ROC Statute for Upgrading Industries, the Statute for Industrial Innovation provides for less tax credits. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward.

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, January 1, 2008 and January 1, 2014 and expired or will expire on March 31, 2009, December 31, 2010, December 31, 2012 and December 31, 2018, respectively. In addition, beginning January 1, 2009 and January 1,

2014, Himax Semiconductor is also entitled to two five-year tax exemption expired or will expire on December 31, 2013 and December 31, 2018, respectively. Based on the ROC statutory income tax rate of 17%, the effect of these tax exemptions on net income and basic and diluted earnings per ordinary share attributable to our stockholders had been an increase of \$0.8 million, \$0.002 and \$0.002 for the year ended December 31, 2011, respectively, \$2.9 million, \$0.01 and \$0.01 for the year ended December 31, 2012, respectively, and \$2.4 million, \$0.01 and \$0.01 for the year ended December 31, 2013, respectively. No such tax exemption is provided for under the newly adopted Statute for Industrial Innovation.

Our higher effective tax rate in 2011 was due to two reasons. One, our Taiwan subsidiaries, other than Himax Taiwan, incurred net operating losses and provided full valuation allowance for deferred tax assets. Another factor was NT dollar's depreciation against U.S. dollar during 2011. While our reporting currency is U.S. dollar, a substantial majority of our taxes are incurred in Taiwan on the tax basis of NT dollar. More deferred tax liabilities were recognized by Himax Taiwan in 2011 because if we were to settle the monetary assets or liabilities in U.S. dollars, it would have resulted in taxable income.

## 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 non-vested or restricted shares of common stock, stock options and RSUs issued to employees. 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, 2013, we based our share-based compensation cost on an assumed forfeiture rate of 12.4% per annum for RSUs issued in 2010, and 12.6% per annum for RSUs issued in 2012 and 2013 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 2011, 2012 and 2013, the fair value of the ordinary shares underlying the RSUs granted to our employees was \$1.10, \$1.95 and \$10.15 per share, respectively, which was the closing price of our ADSs on September 28, 2011, September 26, 2012 and September 26, 2013, respectively.

### *Allowance for Doubtful Accounts, Sales Returns and Discounts*

We reduce our revenues and accounts receivable 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 collectability purposes. In establishing the required allowance, we consider our historical collection experience, current receivable aging and the current trend in the credit quality of our customers. In 2008, we recognized a valuation allowance of \$25.3 million for the probable credit loss relating to SVA-NEC. Since around September 2008, SVA-NEC has delayed paying a large portion of our accounts receivable outstanding from them. Subsequently, in late February 2009, it was reported that SVA Group, the ultimate parent company of SVA-NEC, was in financial distress, and in late March 2009, the Shanghai municipal government set up a conservatorship committee to assist in SVA Group's restructuring. While we recovered \$1.5 million from SVA-NEC in 2011, we believe it is probable that we would not be able to collect any of our remaining accounts receivable outstanding from SVA-NEC.

The movement in the allowance for doubtful accounts, sales returns and discounts for the years ended December 31, 2011, 2012 and 2013 are as follows:

#### Allowance for doubtful accounts

| Year | Balance at<br>Beginning<br>of Year<br>(in thousands) | Charges<br>(credits) to<br>earnings | Amounts<br>Utilized | Balance at<br>End of Year |
|------|--|-------------------------------------|---------------------|---------------------------|
| 2011 | \$ 16,727  | \$ (1,541)                          | \$ -                | \$ 15,186                 |
| 2012 | \$ 15,186  | \$ -                                | \$ -                | \$ 15,186                 |

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|      |           |        |      |           |
|------|-----------|--------|------|-----------|
| 2013 | \$ 15,186 | \$ 173 | \$ - | \$ 15,359 |
|------|-----------|--------|------|-----------|

Allowance for sales returns and discounts

| Year | Balance at<br>Beginning<br>of Year<br>(in thousands) | Additions<br>Charged to<br>Expense | Amounts<br>Utilized | Balance at<br>End of Year |
|------|--|------------------------------------|---------------------|---------------------------|
| 2011 | \$ 591   | \$ 3,385                           | \$ (3,191)          | \$ 785                    |
| 2012 | \$ 785   | \$ 7,386                           | \$ (7,093)          | \$ 1,078                  |
| 2013 | \$ 1,078   | \$ 7,272                           | \$ (7,421)          | \$ 929                    |

*Inventory*

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted-average method. For work-in-process and manufactured inventories, cost consists of the cost of raw materials (primarily fabricated wafers and processed tape), direct labor and an appropriate proportion of production overheads. We also write down excess and obsolete inventory to its estimated market value based upon estimations about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional future inventory write-downs may be required which could adversely affect our operating results. Once written down, inventories are carried at this lower amount until sold or scrapped. If actual market conditions are more favorable, we may have higher gross margin when such products are sold. Sales to date of such products have not had a significant impact on our gross margin. The inventory write-downs in 2011, 2012 and 2013 were approximately \$9.1 million, \$12.4 million and \$10.8 million, respectively, and were included in cost of revenues in our consolidated statements of income.

*Impairment of Long-Lived Assets, Excluding Goodwill*

We routinely review our long-lived assets that are held and used for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, average selling prices, utilization rates and other factors. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment charge is recognized for the amount that the carrying value of the asset exceeds its fair value, based on the best information available, including discounted cash flow analysis. However, due to the cyclical nature of our industry and changes in our business strategy, market requirements, or the needs of our customers, we may not always be in a position to accurately anticipate declines in the utility of our equipment or acquired technology until they occur. Prior to evaluating goodwill for impairment, we evaluated the Company's long-lived assets for impairment. For CMOS image sensors and Projection displays these two asset groups, we determined that the undiscounted cash flows expected to result from the use of the asset groups significantly exceeded their respective carrying amounts. The undiscounted cash flow exceed its carrying amount were 276%, 46% and 69% for CMOS image sensors asset group as of December 31, 2011, 2012 and 2013, respectively. The undiscounted cash flow exceed its carrying amount were 254%, 31% and 45% for Projection displays asset group as of December 31, 2011, 2012 and 2013, respectively. No trigger events that would indicate potential impairment occurred for the other significant asset groups for the last three years. Consequently, we have not recognized any impairment charges on long-lived assets during the period from December 31, 2011 to December 31, 2013.

*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. Impairment testing for goodwill is done at a reporting unit level. 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. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

We have two operating segments, which are also reportable segments. We have determined that we have five reporting units. However, most of the goodwill has been assigned to the Driver IC reporting unit, which is also an



operating segment. Therefore, only the Driver IC reporting unit was tested for goodwill impairment. Goodwill also exists in our Non-Driver Products reportable segment as of December 31, 2012 and 2013 as a result of our acquisition of Spatial Photonics, Inc. during 2012. The amount of such goodwill is immaterial.

For the Driver IC reporting unit in 2011 and 2012, we compared the carrying value of the Driver IC reporting unit, inclusive of assigned goodwill, to its respective fair value step 1 of the two-step impairment test.

We use the discounted cash flow (DCF) method to determine the fair value of each reporting unit. We engaged an independent external service provider to assist us in estimating the fair value of each reporting unit. In conducting the DCF valuation, we incorporate the use of projected financial information and a discount rate that are developed using market-participant-based assumptions. The cash-flow projections are based on five-year financial forecasts that include revenue projections, which are based on our business plan and considered industry trends, capital spending trends, and investment in working capital to support anticipated revenue growth. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in our reporting units. We used a discount rate based on our weighted average cost of capital, which was 23.0% for the Driver IC reporting unit and 30.1% and 35.1% for other reporting units as of October 31, 2011 and 21.3% for the Driver IC reporting unit and 30.2% for other reporting units as of October 31, 2012.

In order to determine the reasonableness of the fair values of the reporting units, we performed a reconciliation of the aggregate fair values of the reporting units to our market capitalization based on the quoted market price of our ordinary shares, adjusted for an appropriate control premium. In determining an appropriate control premium, we referenced the FactSet MergerStat database and Standard Industrial Classification (SIC) Code 367X to identify comparable merger and acquisition transactions effected in 2011 and 2012 prior to October 31, 2011. Within the four compared and observed semiconductor industry transactions, the control premiums ranged from 57.9% to 175.3%. The average observed control premium was approximately 94.3%.

Based on our assessment, the estimated fair value of the Driver IC reporting unit exceeded its carrying amount by 7.6% and 54.3% at October 31, 2011 and 2012, respectively and therefore we concluded that goodwill was not impaired in 2011 and 2012.

Goodwill also exists in our Non-Driver Products reportable segment as of December 31, 2012 as a result of our acquisition of Spatial Photonics, Inc. during that year. The amount of such goodwill is immaterial.

For Driver IC reporting unit in 2013 and Projection displays reporting unit in 2012 and 2013, management elected to use the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of these reporting units are less than their respective carrying amounts. Based on such qualitative assessments, management determined that it was not more-likely-than-not that the fair value of these reporting units are less than their respective carrying amounts. As such, performing the next step of the test impairment test for these reporting units was unnecessary. However, our conclusion could change in the future if market conditions change with respect to these reporting units.

#### *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, 2011, 2012 and 2013 is as follows:

| Year | Balance at<br>Beginning<br>of Year<br><br>(in thousands) | Additions<br>(Reversal)<br>Charged to<br>Expense | Amount<br>Utilized | Balance at<br>End of Year |
|------|--|--|--------------------|---------------------------|
|------|--|--|--------------------|---------------------------|

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|      |        |          |          |        |
|------|--------|----------|----------|--------|
| 2011 | \$ 679 | \$ (321) | \$ (280) | \$ 78  |
| 2012 | \$ 78  | \$ 856   | \$ (737) | \$ 197 |
| 2013 | \$ 197 | \$ 364   | \$ (440) | \$ 121 |

### *Income Taxes*

According to the ROC Income Tax Act, dividends distributed by a Taiwan company to its foreign shareholders are subject to ROC withholding tax, currently at the rate of 20%, on the amount of the distribution in the case of cash dividends or on the par value of the ordinary shares in the case of stock dividends. However, a 10% ROC retained earnings tax paid by a Taiwan company on its undistributed after-tax earnings, if any, would provide a credit of up to 10% of the gross amount of any dividends declared out of those earnings that would reduce the 20% ROC tax imposed on those distributions.

As of December 31, 2012 and 2013, we have not provided for retained earnings tax on the undistributed earnings of approximately \$536.5 million and \$582.6 million, respectively, of our Taiwanese subsidiaries since we have specific plans to reinvest these earnings indefinitely. The undistributed earnings in our foreign subsidiaries are mainly from Himax Taiwan totaling approximately \$514.9 million and \$551.5 million as of December 31, 2012 and 2013, respectively. We intend to use accumulated and future earnings of Himax Taiwan to expand operations in Taiwan.

However, a deferred tax liability will be recognized when the Taiwanese company can no longer demonstrate that it plans to reinvest indefinitely these undistributed earnings. This amount becomes taxable when we execute other investments, share buybacks or shareholder dividends to be funded by cash distribution by our foreign subsidiaries. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

We are a holding company located in the Cayman Islands and have paid dividends and repurchased outstanding shares. To fund such dividends and repurchases, in the past four years, we have received cash from bank loans and from Himax Taiwan through intercompany borrowings instead of dividends distributed by Himax Taiwan. At December 31, 2012 and 2013, the amount of cash and cash equivalents and investments in marketable securities available-for-sale held by Himax Taiwan were \$119.3 million and \$79.1 million, respectively, which are not available to fund our ultimate parent company's activities unless the cash is distributed.

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

In assessing the ability to realize deferred tax assets, our management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets and therefore the determination of the valuation allowance are dependent upon the generation of future taxable income by the taxable entity during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of different liabilities, projected future taxable income and tax planning strategies in determining the valuation allowance.

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

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

Year ended December 31,

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|  | 2011<br>(in thousands) | 2012   | 2013   |
|--|------------------------|--------|--------|
| Balance at beginning of year                 | \$ 6,892               | \$ 128 | \$ 791 |
| Increase related to prior year tax positions | -                      | 658    | -      |
| Decrease related to prior year tax positions | (6,759)                | -      | (215)  |
| Settlements                                  | -                      | -      | (93)   |
| Effect of exchange rate change               | (5)                    | 5      | -      |
| Balance at end of year                       | \$ 128                 | \$ 791 | \$ 483 |

With the exception of Himax Taiwan, Himax Semiconductor, Himax Technologies Korea Ltd., or Himax Korea, Himax Technologies Japan Ltd., Himax Technologies (Suzhou) Co., Ltd., Himax Technologies (Shenzhen) Co., Ltd., and Himax Imaging Corp. in 2013, most of our subsidiaries have generated tax losses since their inception and are not included in the consolidated tax filing with Himax Taiwan or other subsidiaries with taxable income. Valuation allowances for regular tax of \$31.9 million, \$30.5 million and \$28.1 million as of December 31, 2011, 2012 and 2013, respectively, and valuation allowances for undistributed earnings tax of \$9.6 million, \$8.7 million and \$10.2 million as of December 31, 2011, 2012 and 2013, respectively, were provided to reduce their deferred tax assets (consisting primarily of operating loss carry-forwards and unused investment tax credits) to zero because management believes it is unlikely that these tax benefits will be realized. Additional valuation allowances of \$5.8 million as of December 31, 2012, was provided to reduce Himax Taiwan's deferred tax assets related to unused investment tax credits.

### Segment Reporting

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

Our CODM has been identified as the Chief Executive Officer, who regularly reviews operating results to make decisions about allocating resources and assessing performance for us.

Management of the Company has determined that we have two operating segments, Driver IC and Non-driver products, which are also reportable segments.

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

### Consolidated Results of Operations

The following table sets forth a summary of our consolidated statements of income as a percentage of revenues:

|   | Year Ended December 31, |   |       |   |       |   |
|---|-------------------------|---|-------|---|-------|---|
|   | 2011                    | % | 2012  | % | 2013  | % |
| Revenues  | 100.0                   |   | 100.0 |   | 100.0 |   |
| Costs and expenses:                               |                         |   |       |   |       |   |
| Cost of revenues                                  | 80.2                    |   | 76.9  |   | 75.1  |   |
| Research and development                          | 12.4                    |   | 9.6   |   | 10.4  |   |
| General and administrative                        | 2.7                     |   | 2.3   |   | 2.4   |   |
| Bad debt expense (recovery)                       | (0.2)                   |   | -     |   | -     |   |
| Sales and marketing                               | 2.3                     |   | 2.1   |   | 2.4   |   |
| Total costs and expenses                          | 97.4                    |   | 90.9  |   | 90.3  |   |
| Operating income                                  | 2.6                     |   | 9.1   |   | 9.7   |   |
| Non-operating income (loss)                       | -                       |   | (0.2) |   | 0.1   |   |
| Income tax expense                                | 1.1                     |   | 2.1   |   | 2.5   |   |
| Net income  | 1.5                     |   | 6.8   |   | 7.3   |   |
| Net loss attributable to noncontrolling interests | 0.2                     |   | 0.2   |   | 0.7   |   |

|   |     |     |     |
|---|-----|-----|-----|
| Net income attributable to Himax stockholders | 1.7 | 7.0 | 8.0 |
|---|-----|-----|-----|

## Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

*Revenues.* Our revenues increased by 4.5% to \$770.7 million in 2013 from \$737.3 million in 2012. The growth was a result of our customer diversification improved substantially. This increase was attributable mainly to a 26.4% increase in revenues from sales of display drivers for mobile handsets and consumer electronics applications to \$415.6 million in 2013 from \$328.9 million in 2012, primarily as a result of our expanding reach to end customers in Taiwan, Korea, China and Japan. The increase was also attributable to a 22.4% increase in revenues from non-driver products to \$126.2 million in 2013 from \$103.2 million in 2012. The increase was partially offset by a 25.0% decrease in revenues from large-sized applications to \$228.9 million in 2013 from \$305.2 million in 2012, primarily due to the soft global demand for TVs, monitors and notebooks. In 2013, our average selling prices increased by 1.4%, primarily as a result of changes in our product mix, and our unit shipments increased by 3.1% as a result of our increased market share for certain products, the larger market size for certain applications and a wider market adoption for some non-driver products.

*Costs and Expenses.* Costs and expenses increased by 3.9% to \$696.4 million in 2013 from \$670.2 million in 2012. As a percentage of revenues, costs and expenses decreased to 90.3% in 2013 compared to 90.9% in 2012.

*Cost of Revenues.* Cost of revenues increased to \$578.9 million in 2013 from \$566.7 million in 2012. The increase in cost of revenues was due primarily to a 3.1% increase in unit shipments in 2013, as compared to 2012. Inventory write-downs, which are included in cost of revenues, decreased slightly to \$10.8 million in 2013 from \$12.4 million in 2012. As a percentage of revenues, cost of revenues decreased to 75.1% in 2013 from 76.9% in 2012. The significant margin improvement is primarily a result of our product mix and customer diversification.

*Research and Development.* Research and development expenses increased by 13.3% to \$80.4 million in 2013 from \$70.9 million in 2012. This increase was primarily attributable to increases in salary expenses, mask and mold expenses and royalty expense to capture the increasing business opportunities. The increase in salary expenses was due primarily to a larger headcount of research and development staff and higher average salaries.

*General and Administrative.* General and administrative expenses increased by 5.9% to \$18.1 million in 2013 from \$17.1 million in 2012, primarily as a result of increases in salary expenses and professional expenses. The increase in salary expenses was due primarily to a larger headcount of general and administrative staff and higher average salaries. The increase in professional expenses was due primarily to increasing patent filing fees and certain consulting fee.

*Bad Debt Expense.* We recognized bad debt expense of 0.2 million in 2013 and nil in 2012.

*Sales and Marketing.* Sales and marketing expenses increased by 21.9% to \$18.8 million in 2013 from \$15.4 million in 2012, primarily as a result of increases in salary expenses and travelling expenses. The increase in salary expenses was due primarily to a larger headcount of sales and marketing staff and higher average salaries.

*Non-Operating Income (Loss), net.* We had net non-operating income of \$1.1 million in 2013 compared to a net non-operating loss of \$1.2 million in 2012. We recognized an impairment loss on investment of \$1.3 million in 2012. Our foreign currency exchange gains increased to \$0.6 million in 2013 from an exchange loss of \$0.5 million in 2012, primarily due to the net liability denominated in NT dollars as a result of the weaker NT dollar against the U.S. dollar in 2013.

*Income Tax Expense.* Our income tax expense increased by 23.7% to \$19.5 million in 2013 from \$15.7 million in 2012. Our effective income tax rate increased to 25.8% from 23.9% in 2012. This change in our effective income tax rate was primarily attributable to tax benefits recognized in 2012 for realized tax losses on investments in subsidiaries due to capital reduction to offset the accumulated deficit that did not reoccur in 2013 and tax expenses resulting from



changes in foreign currency exchange rates in 2013, which was partially offset by a lower increase in valuation allowance provided for Himax Taiwan's deferred tax assets in 2013 compared to 2012.

*Net Income.* As a result of the foregoing, our net income increased to \$55.9 million in 2013 from \$50.1 million in 2012 and net income attributable to Himax stockholders increased to \$61.5 million in 2013 from \$51.6 million in 2012.

## Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

*Revenues.* Our revenues increased by 16.5% to \$737.3 million in 2012 from \$633.0 million in 2011. The growth was a result of increasing sales in all categories of products. This increase was attributable mainly to a 16.6% increase in revenues from sales of display drivers for mobile handsets and consumer electronics applications to \$328.9 million in 2012 from \$282.1 million in 2011, primarily as a result of our expanding reach to end customers in China, Korea and the U.S. The increase was also attributable to a 12.9% increase in revenues from display drivers for large-sized applications to \$305.2 million in 2012 from \$270.4 million in 2011, mainly driven by sales to Chinese customers, which led to a gain in market share and a 28.0% increase in revenues from non-driver products to \$103.2 million in 2012 from \$80.5 million in 2011. In 2012, our average selling prices increased by 4.6%, primarily as a result of changes in our product mix, and our unit shipments increased by 11.4% as a result of our increased market share for certain products, the larger market size for certain applications and a wider market adoption for some non-driver products.

*Costs and Expenses.* Costs and expenses increased by 8.7% to \$670.2 million in 2012 from \$616.4 million in 2011. As a percentage of revenues, costs and expenses decreased to 90.9% in 2012 compared to 97.4% in 2011.

*Cost of Revenues.* Cost of revenues increased to \$566.7 million in 2012 from \$507.4 million in 2011. The increase in cost of revenues was due primarily to an 11.4% increase in unit shipments in 2012, as compared to 2011. Inventory write-downs, which are included in cost of revenues, increased to \$12.4 million in 2012 from \$9.1 million in 2011 primarily due to increased inventory build-up to meet projected revenues which led to more inventory write-downs. As a percentage of revenues, cost of revenues decreased to 76.9% in 2012 from 80.2% in 2011. The significant margin improvement is primarily a result of product diversification.

*Research and Development.* Research and development expenses decreased by 10.3% to \$70.9 million in 2012 from \$79.0 million in 2011. This decrease was primarily attributable to decreases in research and development material expenses and mask and mold expenses. The decrease was partially offset by an increase in salary expenses (including share-based compensation). The increase in salary expenses was due primarily to higher average salaries.

*General and Administrative.* General and administrative expenses increased slightly by 0.3% to \$17.1 million in 2012 from \$17.1 million in 2011, primarily as a result of increases in salary expenses and welfare expense. The increase was partially offset by a decrease in depreciation expenses. The decrease in depreciation expenses was due primarily to the useful life of prior capitalized items gradually being expired in 2012.

*Bad Debt Expense (Recovery).* We recognized net recoveries of previously considered doubtful accounts from SVA-NEC of nil in 2012 and \$1.5 million in 2011.

*Sales and Marketing.* Sales and marketing expenses increased by 7.5% to \$15.4 million in 2012 from \$14.4 million in 2011, primarily as a result of increases in salary expenses, sample expenses and travelling expenses. The increase in salary expenses was due primarily to higher average salaries.

*Non-Operating Income (Loss), net.* We had a net non-operating loss of \$1.2 million in 2012 compared to net non-operating income of \$0.2 million in 2011. We recognized an impairment loss on investment of \$1.3 million in 2012. Our foreign currency exchange losses increased to \$0.5 million in 2012 from an exchange gain of \$0.5 million in 2011, primarily due to the net liability denominated in NT dollars as a result of the stronger NT dollar against the U.S. dollar in 2012. Our other income increased to \$0.1 million in 2012 from other losses of \$0.4 million in 2011, primarily as a result of a decrease in unrealized losses on conversion options in 2012.

*Income Tax Expense.* Our income tax expense increased to \$15.7 million in 2012 from \$7.3 million in 2011. Our effective income tax rate decreased to 23.9% from 43.4% in 2011. This change in our effective income tax rate was

primarily attributable to tax benefits for realized tax losses on investments in subsidiaries due to capital reduction to offset the accumulated deficit and tax benefits resulting from changes in foreign currency exchange rates.

*Net Income.* As a result of the foregoing, our net income increased to \$50.1 million in 2012 from \$9.5 million in 2011 and net income attributable to Himax stockholders increased to \$51.6 million in 2012 from \$10.7 million in 2011.

**Segment Results**

The following table sets forth the revenues and operating results for our reportable segments for the periods indicated:

|                                 | Year Ended December 31, |            |            |
|---------------------------------|-------------------------|------------|------------|
|                                 | 2011                    | 2012       | 2013       |
|                                 | (in thousand)           |            |            |
| Segment Revenues                |                         |            |            |
| Driver IC                       | \$ 552,456              | \$ 634,111 | \$ 644,500 |
| Non-Driver Products             | 80,565                  | 103,144    | 126,239    |
| Total                           | \$ 633,021              | \$ 737,255 | \$ 770,739 |
|                                 | 2011                    | 2012       | 2013       |
|                                 | (in thousand)           |            |            |
| Segment Operating Income (loss) |                         |            |            |
| Driver IC                       | \$ 38,401               | \$ 83,883  | \$ 89,162  |
| Non-Driver Products             | (21,793)                | (16,823)   | (14,819)   |
| Total                           | \$ 16,608               | \$ 67,060  | \$ 74,343  |

*Driver IC Segment***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

*Segment revenues.* Our revenues from the Driver IC segment increased by 1.6% to \$644.5 million in 2013 from \$634.1 million in 2012. This increase was attributable to a 2.3% increase in our average selling price and partially offset by a 0.7% decrease in unit shipments of our driver IC products.

*Segment operating income.* Operating income from the Driver IC segment increased to \$89.2 million in 2013 from \$83.9 million in 2012. This increase was primarily attributable to an increase in revenues and gross profit in 2013 as compared to 2012. The increase was partially offset by an increase in operating expense due to capture the increasing business opportunities. As a percentage of segment revenues, segment operating income increased to 13.8% in 2013 from 13.2% in 2012. The increase is a result of the product diversification and more profit contribution generated from certain higher panel resolution products, mainly from smartphone, tablet and automotive displays.

**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

*Segment revenues.* Our revenues from the Driver IC segment increased by 14.8% to \$634.1 million in 2012 from \$552.5 million in 2011. This increase was attributable to a 9.8% increase in our average selling price and a 4.6% increase in unit shipments of our driver IC products.

*Segment operating income.* Operating income from the Driver IC segment increased to \$83.9 million in 2012 from \$38.4 million in 2011. This increase was primarily attributable to an increase in revenues and gross profit in 2012 as compared to 2011. As a percentage of segment revenues, segment operating income increased to 13.2% in 2012 from 7.0% in 2011. The increase is a result of the product diversification and more profit contribution generated from certain new products, like smartphone, tablet and automotive displays.

*Non-Driver Products Segment***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

*Segment revenues.* Our revenues from the Non-Driver Products segment increased by 22.4% to \$126.2 million in 2013 from \$103.2 million in 2012. This increase was attributable mainly to a 22.4% increase in unit shipments of our non-driver products.

*Segment operating loss.* Operating loss from the Non-Driver Products segment decreased to \$14.8 million in 2013 from \$16.8 million in 2012. Segment operating loss from Non-Driver Products as a percentage of its segment revenues decreased to 11.7% in 2013 from 16.3% in 2012, primarily due to an increase in shipments of CMOS image sensor, ASIC service, programmable gamma OP, power management IC, video SOCs and WLED driver and partially offset by an increase in operating expenses.

### **Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

*Segment revenues.* Our revenues from the Non-Driver Products segment increased by 28.0% to \$103.2 million in 2012 from \$80.6 million in 2011. This increase was attributable mainly to a 67.5% increase in unit shipments of our non-driver products.

*Segment operating loss.* Operating loss from the Non-Driver Products segment decreased to \$16.8 million in 2012 from \$21.8 million in 2011. Segment operating loss from Non-Driver Products as a percentage of its segment revenues decreased to 16.3% in 2012 from 27.1% in 2011, primarily due to an increase in shipments of WLO and controllers products and a decrease in research and development material expenses and mask and mold expenses.

### **5.B. Liquidity and Capital Resources**

We need cash primarily for technology advancement, capacity expansion and working capital. We have historically been able to meet our cash requirements through cash flow from operations.

As of December 31, 2013, we had total current assets of \$639.7 million, total current liabilities of \$303.8 million and cash and cash equivalents of \$127.3 million. As of December 31, 2013, we had total short-term debt of \$105.5 million with equal amount of cash and time deposits as collateral and did not have any outstanding long-term borrowings. We believe that our working capital is sufficient for our present requirements.

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2011                    | 2012      | 2013      |
|  | (in thousands)          |           |           |
| Net cash provided by operating activities            | \$ 43,448               | \$ 52,167 | \$ 51,123 |
| Net cash used in investing activities                | (10,197)                | (695)     | (30,525)  |
| Net cash used in financing activities                | (24,015)                | (18,931)  | (32,103)  |
| Net increase (decrease) in cash and cash equivalents | 9,322                   | 32,573    | (11,417)  |
| Cash and cash equivalents at beginning of period     | 96,842                  | 106,164   | 138,737   |
| Cash and cash equivalents at end of period           | 106,164                 | 138,737   | 127,320   |

*Operating Activities.* Net cash provided by operating activities in 2013 was \$51.1 million compared to \$52.2 million in 2012. This decrease in net cash provided by operating activities in 2013 was due primarily to an increase in cash used for raw materials, assembly and testing process fees, operating expenses and income tax in 2013 compared to 2012, partially offset by an increase in cash collected from customers in 2013 compared to 2012. Net cash provided by operating activities in 2012 was \$52.2 million compared to \$43.4 million in 2011. This increase in net cash provided by operating activities in 2012 was due primarily to an increase in cash collected from customers in 2012 compared to 2011 and a decrease in cash paid for income tax in 2012 compared to 2011, partially offset by an increase in cash used for raw materials, assembly and testing process fees in 2012 compared to 2011.

*Investing Activities.* Net cash used in investing activities in 2013 was \$30.5 million compared to \$0.7 million in 2012. This increase in net cash used in investing activities in 2013 was due primarily to an increase in cash used for property

and equipment \$18.4 million, purchasing of investment securities \$9.2 million and pledge of restricted marketable securities mainly for government grant \$1.8 million in 2013 compared to 2012. Net cash used in investing activities in 2012 was \$0.7 million compared to \$10.2 million in 2011. This decrease in net cash used in investing activities in 2012 was due primarily to a decrease in cash used for property and equipment in 2012 compared to 2011.

*Financing Activities.* Net cash used in financing activities in 2013 was \$32.1 million compared to \$18.9 million in 2012. This increase was due primarily to an increase in distribution of cash dividends and partially offset by a decrease in payments to repurchase ordinary shares and an increase in proceeds from issuance of new shares by subsidiaries. Net cash used in financing activities in 2012 was \$18.9 million compared to \$24.0 million in 2011. This decrease was due primarily to a decrease in distribution of cash dividends and partially offset by an increase in payments to repurchase ordinary shares.

Our liquidity could be negatively impacted by a decrease in demand for our products that are subject to rapid technological change, among other factors, which could result in revenue variability in future periods. In addition, we have at times agreed to extend the payment terms for certain of our customers. Other customers have also requested extension of payment terms and we may grant such requests for extensions in the future. The extension of payment terms for our customers could adversely affect our cash flow, liquidity and our operating results. Our subsidiaries' ability to distribute dividends and other payments to us may be limited by ROC regulations. See "Risk Factors – Risks Related 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."

Our capital expenditures were incurred primarily in connection with the purchase of property and equipment. Our capital expenditures totaled \$18.9 million, \$6.6 million and \$18.4 million in 2011, 2012 and 2013, respectively. We will continue to make capital expenditures to meet the expected growth of our operations. We believe that our working capital is sufficient for our present requirements.

### **5.C. Research and Development**

Our research and development efforts focus on improving and enhancing our core technologies and know-how relating to the semiconductor solutions we offer to the flat panel display industry. In particular, we have committed a significant portion of our resources to the research and development of non-driver products because we believe in the long-term business prospects of such products and are committed to continuing to diversify our product portfolio. Although a significant portion of the resources at our integrated circuit design center are invested in advanced research for future products, we continue to invest in improving the performance and reducing the costs of our existing products. Our application engineers, who provide on-system verification of semiconductors and product specifications, and field application engineers, who provide on-site engineering support at our customers' offices or factories, work closely with panel manufacturers to co-develop display solutions for their electronic devices. In 2011, 2012 and 2013, we incurred research and development expenses of \$79.0 million, \$70.9 million and \$80.4 million, respectively, representing 12.4%, 9.6% and 10.4% of our revenues, respectively.

### **5.D. Trend Information**

4K TVs, LED TVs, 3D TVs, smartphones, tablet PCs and automotive applications are the major themes for large, small and medium-sized panels. There will be more and more similar products on the market. In 2011, we lost share in large panel drivers because one of our major customers continued to diversify their driver IC supply base. However, benefiting from the growth in the market in China, where most of the new buildings of panel capacity took place, we gained share in the large panel sector and grew our large panel driver IC sales in 2012. In addition, we also benefited from our gains in small and medium-sized panels, especially in smartphones and tablet applications. Excluding feature phone sales, our small and medium-sized drivers grew over 50% year over year in 2012 and over 38.6% in 2013. We were able to achieve such strong performance in this area in 2013 because we were able to expand our reach to end customers across China, Korea and the U.S. However, continued growth momentum in the smart phone market has attracted more competitors to this segment. Increased competition in the smart phone segment may result in pricing pressure and loss of market share.

We also see the demand from our customers for high-resolution displays of all sizes of TFT-LCD panels to provide better user experiences. As the leading player with a track record with top global brands in display driver ICs, we are well-positioned to benefit from this trend in resolution upgrades. We have worked closely with panel partners and also tier-one brand customers to develop next-generation high-resolution mobile devices.



We are devoted to the development, manufacturing and marketing of non-driver products to diversify our customer base and product portfolio to offer total solutions of image processing and human interface related technologies in addition to our driver IC products. The non-driver category is our most exciting long-term growth engine. Our non-driver products delivered the strongest growth last year owing to many new product launches and project wins. We expect that our non-driver businesses will continue to account for an increasing percentage of our sales.

The potential expansion plans for next generation fabs in China proposed by several TFT-LCD panel manufacturers might significantly increase the output of TFT-LCD panels if all of the plans are implemented in the following years. Although these capacity expansions offer attractive new driver business opportunities, they might also cause over-supply for TFT-LCD panels at the same time. In addition, as new China panel makers have continued to expand their capacity, their bargaining power will increase due to their larger size and result in more ASP pressure.

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

## 5.E. Off-Balance-Sheet Arrangements

As of December 31, 2013, we did not have any off-balance-sheet guarantees, interest rate swap transactions or foreign currency forwards. We do not engage in trading activities involving non-exchange traded contracts. Furthermore, as of December 31, 2013, we did not have any interests in variable interest entities.

## 5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2013:

|                                     | Payment Due by Period |                     |           |              |                      |
|-------------------------------------|-----------------------|---------------------|-----------|--------------|----------------------|
|                                     | Total                 | Less than<br>1 year | 1-3 years | 3-5<br>years | More than<br>5 years |
|                                     | (in thousands)        |                     |           |              |                      |
| Operating lease obligations         | 4,776                 | 1,724               | 1,348     | 737          | 967                  |
| Purchase obligations <sup>(1)</sup> | 108,786               | 108,786             | -         | -            | -                    |
| Other obligations <sup>(2)</sup>    | 3,648                 | 2,565               | 1,083     | -            | -                    |
| Total                               | 117,210               | 113,075             | 2,431     | 737          | 967                  |

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

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

We lease office and building space pursuant to operating lease arrangements with unrelated third parties. In 2011, 2012 and 2013, rental expenses for operating leases amounted to \$1.2 million, \$1.8 million and \$2.7 million, respectively. The lease arrangements will expire gradually from 2014 to 2024. As of December 31, 2013, we agreed to make future minimum lease payments of \$1.7 million, \$0.7 million, \$0.6 million, \$0.5 million and \$0.3 million in 2014, 2015, 2016, 2017 and 2018, respectively, under non-cancelable operating leases.

We have, from time to time, entered into contracts for the acquisition of equipment and computer software. As of December 31, 2013, the remaining commitments under such contracts were \$4.0 million. These outstanding contracts had a total contract value of \$4.4 million.

Pursuant to several wafer fabrication or assembly and testing service arrangements we entered into with service providers, we may be obligated to make payments for purchase orders made under such arrangements. As of December 31, 2013, our contractual obligations pursuant to such arrangements amounted to approximately \$86.5 million.

Under the ROC Labor Standard Law, we established a defined benefit plan and were required to make monthly contributions to a pension fund in an amount equal to 2% of wages and salaries of our employees. Under the ROC Labor Pension Act, beginning on July 1, 2005, we are required to make a monthly contribution for employees that

elect to participate in the new defined contribution plan of no less than 6% of the employee's monthly wages, to the employee's individual pension fund account. Substantially all participants in the defined benefit plan have elected to participate in the new defined contribution plan. Participants' accumulated benefits under the defined benefit plan are not impacted by their election to change plans. We are required to make contributions to the defined benefit plan until it is fully funded. Total contributions to the new defined contribution plan in 2013 were \$2.0 million compared to \$1.8 million and \$1.8 million in 2012 and 2011, respectively. Total contributions to the defined benefit plan and the new defined contribution plan in 2013 were \$2.1 million compared to \$2.0 million and \$1.9 million in 2012 and 2011, respectively. Such changes in contributions have not, and are not expected to have, a material effect on our cash flows or results of operations.

## Inflation

Inflation in Taiwan has not had a material impact on our results of operations in recent years. However, an increase in inflation can lead to increases in our costs and lower our profit margins. According to the Directorate General of Budget, Accounting and Statistics, Executive Yuan, ROC, the change of the consumer price index in Taiwan was 1.4%, 1.9% and 0.8% in 2011, 2012 and 2013, respectively.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.A. Directors and Senior Management

Members of our board of directors may be elected by our directors or our shareholders. Our board of directors consists of five directors, three of whom are independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. Other than Jordan Wu and Dr. Biing-Seng Wu, who are brothers, there are no family relationships between any of our directors and executive officers. The following table sets forth information regarding our directors and executive officers as of March 31, 2014. Unless otherwise indicated, the positions or titles indicated in the table below refer to Himax Technologies, Inc.

| <b>Directors and Executive Officers</b> | <b>Age</b> | <b>Position/Title</b>                           |
|---|------------|---|
| Dr. Biing-Seng Wu                       | 56         | Chairman of the Board                           |
| Jordan Wu                               | 53         | President, Chief Executive Officer and Director |
| Dr. Yan-Kuin Su                         | 65         | Director  |
| Yuan-Chuan Horng                        | 62         | Director  |
| Hsiung-Ku Chen                          | 62         | Director  |
| Chih-Chung Tsai                         | 58         | Chief Technology Officer, Senior Vice President |
| Jackie Chang                            | 54         | Chief Financial Officer                         |
| Norman Hung                             | 56         | Vice President, Sales and Marketing             |

### *Directors*

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

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

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

*Yuan-Chuan Horng* is our director. He has been the assistant vice president of the Finance Division of China Steel Corporation since October 2011. Prior to our reorganization in October 2005, Mr. Horng served as a director of Himax Taiwan from August 2004 to October 2005. Mr. Horng was the general manager of the Finance Department of China Steel Corporation, a position which he held since April 2000. He has held various accounting and finance positions at China Steel Corporation for over 30 years. Mr. Horng holds a B.A. degree in economics from Soochow University.

*Hsiung-Ku Chen* is our director. He has a B.S. degree in Physics from Fu-Jen University, an M.A. degree in Physics from Temple University and a Ph.D. degree in Applied Physics from Oregon Graduate Center. Dr. Chen specializes in areas including Thin Film Transistor Technology, Liquid Crystal Display Technology, IC Process Technology and Patent Laws and Regulations, etc. He has dedicated himself to the researching and performing practice of the TFT-LCD industry. From 1980 to 2002, Dr. Chen held various positions including manager, director and special assistant of the director's office in the Electronics Research & Service Organization of the Industrial Technology Research Institute for over 20 years and was the leader of many research projects during his tenure. Additionally, Dr. Chen was elected as Society of Information Display, Taipei Chapter Director and Treasurer from 1992 to 1997 and as Taiwan TFT LCD Association Secretary General from 2000 to 2002. Furthermore, Dr. Chen contributed his professional knowledge to serve as a supervisor of Himax Technologies Limited from April 2003 to December 2003 and as a director from December 2003 to October 2005. Dr. Chen was also the Special Assistant of the CEO Office at Etron Technology, Inc. from 2005 to 2007. Dr. Chen had served as consultants in various organizations, including Color Display Industry Promotion Office and the Intellectual Property Innovation Corporation. Currently, Dr. Chen serves as consultant of color Imaging Industry Promotion Office.

#### ***Other Executive Officers***

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

*Jackie Chang* is our chief financial officer. Before joining Himax, Ms. Chang served as the CFO of Castlink Corporation and Tongxing International, as well as the VP of Finance and Operations for PlayHut, Inc. Prior to joining PlayHut, Ms. Chang was General Manager Treasury Control for Nissan North America. She held several positions in Nissan North America from 1994 to 2006 including finance, treasury planning, operations and accounting. She worked at Nissan JV in China from 2003 to 2006, where she implemented IFRS and SAP successfully. She holds a BBA in accounting from the National Chung-Hsing University in Taiwan and an MBA in Finance from Memphis State University.

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

#### **6.B. Compensation of Directors and Executive Officers**

For the year ended December 31, 2013, the aggregate cash compensation that we paid to our executive officers was approximately \$0.7 million. The aggregate share-based compensation that we paid to our executive officers was

approximately \$0.5 million. No executive officer is entitled to any severance benefits upon termination of his or her employment with us.

For the year ended December 31, 2013, the aggregate cash compensation that we paid to our independent directors was approximately \$135,000. The aggregate share-based compensation that we paid to our independent directors was nil.

The following table summarizes the RSUs that we granted in 2013 to our directors and executive officers under our 2011 long-term incentive plan. Each unit of RSU represents two ordinary shares as of August 10, 2009. See “Item 6.D. Directors, Senior Management and Employees Employees Share-Based Compensation Plans” for more details regarding our RSU grants.

| Name              | Total RSUs<br>Granted | Ordinary Shares<br>Underlying Vested<br>Portion of RSUs | Ordinary<br>Shares<br>Underlying<br>Unvested<br>Portion<br>of RSUs |
|-------------------|-----------------------|---|--|
| Dr. Biing-Seng Wu | 5,911                 | 11,822  | -  |
| Jordan Wu         | 7,332                 | 14,664  | -  |
| Dr. Yan-Kuin Su   | -                     | -   | -  |
| Yuan-Chuan Horng  | -                     | -   | -  |
| Hsiung-Ku Chen    | -                     | -   | -  |
| Chih-Chung Tsai   | 23,645                | 11,822  | 35,468   |
| Jackie Chang      | 11,626                | 5,812   | 17,440   |
| Norman Hung       | 3,818                 | 7,636   | -  |

## 6.C. Board Practices

### General

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

### Committees of the Board of Directors

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

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

- electing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
-



reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation SK under the Securities Act;

- discussing the annual audited financial statements with management and the independent auditors;

· reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material internal control deficiencies;

- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent auditors;

1 reporting regularly to the board of directors; and

1 such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

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

1 reviewing and making recommendations to our board of directors regarding our compensation policies and forms of compensation provided to our directors and officers;

1 reviewing and determining bonuses for our officers and other employees;

1 reviewing and determining share-based compensation for our directors, officers, employees and consultants;

1 administering our equity incentive plans in accordance with the terms thereof; and

1 such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

**Nominating and Corporate Governance Committee.** Our nominating and corporate governance committee assists the board of directors in identifying individuals qualified to be members of our board of directors and in determining the composition of the board and its committees. Our current nominating and corporate governance committee consists of Yuan-Chuan Horng, Hsiung-Ku Chen, and Dr. Yan-Kuin Su. We intend to follow home country practice that permits a nominations committee to contain a director who does not meet the definition of “independence” within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. We intend to follow home country practice in lieu of complying with Rule 5605(e)(1)(B) of the Nasdaq Rules which requires that nominations committees of U.S. companies be comprised solely of independent directors. Our nominating and corporate governance committee will be responsible for, among other things:

1 identifying and recommending to our board of directors nominees for election or re-election, or for appointment to fill any vacancy;

1 reviewing annually with our board of directors the current composition of our board of directors in light of the characteristics of independence, age, skills, experience and availability of service to us;

1 reviewing the continued board membership of a director upon a significant change in such director’s principal occupation;

1 identifying and recommending to our board of directors the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself;

1 advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our

board of directors on all matters of corporate governance and on any corrective action to be taken; and

- 1 monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

## Terms of Directors and Officers

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

## 6.D. Employees

As of December 31, 2011, 2012 and 2013, we had 1,423, 1,431 and 1,638 employees, respectively. The following is a breakdown of our employees by function as of December 31, 2013:

| Function                                     | Number |
|--|--------|
| Research and development <sup>(1)</sup>      | 988    |
| Engineering and manufacturing <sup>(2)</sup> | 259    |
| Sales and marketing <sup>(3)</sup>           | 269    |
| General and administrative                   | 122    |
| Total  | 1,638  |

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

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

(3) Includes field application engineers.

## Share-Based Compensation Plans

### *Himax Technologies, Inc. 2005 and 2011 Long-Term Incentive Plan*

We adopted two long-term incentive plans in October 2005 and September 2011, however, the 2005 plan was terminated in October 2010. The following description of the plan is intended to be a summary and does not describe all provisions of the plan.

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

- 1 providing the opportunity for our employees, directors and service providers to develop a sense of proprietorship and personal involvement in our development and financial success and to devote their best efforts to our business;

and

providing us with a means through which we may attract able individuals to become our employees or to serve as our directors or service providers and providing us a means whereby those individuals, upon whom the responsibilities of our successful administration and management are of importance, can acquire and maintain share ownership, thereby strengthening their concern for our welfare.

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

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

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

*Number of Authorized Shares.* We have authorized a maximum issuance of 36,153,854 shares in the 2005 plan and 20,000,000 shares in the 2011 plan. As of the date of this annual report, there were no stock options or restricted share units outstanding under the plan except as described under “ Restricted Share Units.”

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

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

The exercise price for each option will be:

1                      based on 100% of the fair market value of the shares on the date of grant;

1                      set at a premium to the fair market value of the shares on the date of grant; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We made grants of 2,727,278 RSUs to our employees on September 28, 2011. The vesting schedule for such RSU grants is as follows: 97.36% of the RSU grants vested immediately and was settled by cash in the amount of \$2.9 million on the grant date, with the remainder vesting equally on each of September 30, 2012, 2013 and 2014, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 5,522,279 RSUs to our employees on September 26, 2012. The vesting schedule for such RSU grants is as follows: 58.36% of the RSU grants vested immediately and was settled by cash in the amount of \$6.3 million on the grant date, with the remainder vesting equally on each of September 30, 2013, 2014 and 2015, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 867,771 RSUs to our employees on September 26, 2013. The vesting schedule for such RSU grants is as follows: 88.90% of the RSU grants vested immediately and was settled by cash in the amount of \$7.8 million on the grant date, with the remainder vesting equally on each of September 30, 2014, 2015 and 2016, which will be settled by our ordinary shares, subject to certain forfeiture events.

*Dividend Equivalents.* Any participant selected by the committee may be granted dividend equivalents based on the dividends declared on shares that are subject to any award, to be credited as of dividend payment dates, during the period between the date the award is granted and the date the award is exercised, vests or expires, as determined by the committee, provided that unvested RSUs are currently not entitled to dividend equivalents. Dividend equivalents will be converted to cash or additional shares by such formula and at such time and subject to such limitations as determined by the committee.

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



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

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

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

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

## 6.E. Share Ownership

The following table sets forth the beneficial ownership of our ordinary shares, as of March 31, 2014, by each of our directors and executive officers.

| Name              | Number of Shares Owned | Percentage of Shares Owned |   |
|-------------------|------------------------|----------------------------|---|
| Dr. Biing-Seng Wu | 71,119,886             | 20.9                       | % |
| Jordan Wu         | 28,181,114             | 8.3                        | % |
| Dr. Yan-Kuin Su   | -                      | -                          |   |
| Yuan-Chuan Horng  | 916,104                | 0.3                        | % |
| Hsiung-Ku Chen    | -                      | -                          |   |
| Chih-Chung Tsai   | 7,136,260              | 2.1                        | % |
| Jackie Chang      | 24,378                 | -                          |   |
| Norman Hung       | 448,610                | 0.1                        | % |

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

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 7.A. Major Shareholders

On August 10, 2009, we effected certain changes in our capital stock structure in order to meet the Taiwan Stock Exchange's primary listing requirement that the par value of shares be NT\$10 or \$0.3 per share and in order to increase the number of outstanding ordinary shares to be listed on the Taiwan Stock Exchange. In particular, we increased our authorized share capital from \$50,000 (divided into 500,000,000 shares of par value \$0.0001 each) to \$300,000,000 (divided into 3,000,000,000,000 shares of par value \$0.0001 each) and distributed 5,999 bonus shares for each share of par value \$0.0001 held by shareholders of record as of August 7, 2009. These were followed by a consolidation of every 3,000 shares of par value \$0.0001 each into one ordinary share of par value \$0.3 each. As a result, the number of ordinary shares outstanding was doubled and each of our ordinary shares had a par value of \$0.3.

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

As of March 31, 2014, 341,049,418 of our shares were outstanding. We believe that, of such shares, 203,160,406 shares in the form of ADSs were held by approximately 52,731 holders in the United States as of March 31, 2014.

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of March 31, 2014, the most recent practicable date, by (i) each shareholder known by us to beneficially own more than 5% of our shares and (ii) all directors and executive officers as a group.

| Name of Beneficial Owner                        | Number of Shares<br>Beneficially Owned | Percentage of<br>Shares<br>Beneficially Owned |   |
|---|--|---|---|
| Dr. Biing-Seng Wu <sup>(1)</sup>                | 71,119,886                             | 20.9  | % |
| Jordan Wu <sup>(2)</sup>                        | 28,181,114                             | 8.3   | % |
| All directors and executive officers as a group | 107,826,352                            | 31.6  | % |

Note: (1) Dr. Biing-Seng Wu directly owns 70,358 ordinary shares. Dr. Biing-Seng Wu beneficially owns 51,009,690 ordinary shares and 20,039,838 ordinary shares through Sanfair Asia Investments Ltd. and Chi-Duan Investment Co., Ltd, respectively, both of which are investment companies controlled by Dr. Biing-Seng Wu. Accordingly, Dr. Biing-Seng Wu may be deemed to beneficially own an aggregate of 71,119,886 ordinary shares, representing approximately 20.9% of the outstanding ordinary shares.

(2) Jordan Wu beneficially owns 26,400,384 ordinary shares and 1,780,730 ordinary shares through Arch Finance Ltd. and Shu Chuan Investment Co., Ltd, respectively, both of which are investment companies controlled by Jordan Wu. Accordingly, Jordan Wu may be deemed to beneficially own an aggregate of 28,181,114 ordinary shares, representing approximately 8.3% of the outstanding ordinary shares.

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

## 7.B. Related Party Transactions

On June 19, 2013, Innolux disposed of its entire holding shares of ours, so that Innolux ceased to be our shareholder and Innolux and its affiliates was not a related party since that day. The related transactions for 2013 were disclosed as of June 19, 2013.

### Innolux and Related Companies

#### *Innolux*

We sold display drivers to Innolux. We generated net sales to Innolux in the amount of \$26.7 million in 2013.

We lease office space, facilities and inventory locations from Innolux and certain of its subsidiaries. Rent and utility expenses resulting from such leases in 2013 were \$0.4 million.

In 2013, we purchased consumable and miscellaneous items amounting to \$8,000 from Innolux and other related parties.

#### *CMO-NingBo*

CMO-NingBo is a subsidiary of Innolux. We sell display drivers to CMO-NingBo. We generated net sales to CMO-NingBo in the amount of \$32.0 million in 2013.

***CMO-NanHai***

CMO-NanHai is a subsidiary of Innolux. We sell display drivers to CMO-NanHai. We generated net sales to CMO-NanHai in the amount of \$10.6 million in 2013.

***NingBo Chi Hsin Electronics Ltd.***

NingBo Chi Hsin Electronics Ltd., or Chi Hsin-NingBo, is a subsidiary of Innolux. We sell display drivers for certain audio and visual and mobile applications to Chi Hsin-NingBo. We generated net sales to Chi Hsin-NingBo in the amount of \$2.5 million in 2013.

***NingBo Chi Mei Electronics Ltd.***

NingBo Chi Mei Electronics Ltd., or CME-NingBo, is a subsidiary of Innolux. We sell display drivers for large-sized applications to CME-NingBo. We generated net sales to CME-NingBo in the amount of \$6.4 million in 2013.

***TPO Displays (Shanghai) Ltd.***

TPO Displays (Shanghai) Ltd., or TPO Shanghai, is a subsidiary of Innolux. We sell display drivers for consumer electronics applications to TPO Shanghai. We generated net sales to TPO Shanghai in the amount of \$5.6 million in 2013.

**7.C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**8.A. Consolidated Statements and Other Financial Information**

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

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

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

**8.A.4.** Not applicable.

**8.A.5.** Not applicable.

**8.A.6.** See Note 22 to our audited consolidated financial statements included in “Item 18. Financial Statements.”

***8.A.7. Litigation***

We may be subject to legal proceedings, investigations and claims relating to the conduct of our business from time to time. We may also initiate legal proceedings in order to protect our contractual and property rights. However, as of the date of this annual report, we are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

***8.A.8. Dividends and Dividend Policy***

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

On June 27, 2008, we paid a cash dividend in the amount of \$66.8 million, or the equivalent of \$0.350 per ADS. In 2009, we paid a cash dividend on June 29, 2009 in the amount of \$55.5 million, or the equivalent of \$0.300 per ADS, and distributed a stock dividend on August 10, 2009 of 5,999 ordinary shares of par value \$0.0001 for each ordinary share of par value \$0.0001 held by shareholders of record as of August 7, 2009. On August 13, 2010, we paid a cash dividend in the amount of \$44.1 million, or the equivalent of \$0.250 per ADS. On July 20, 2011, we paid a cash dividend in the amount of \$21.2 million, or the equivalent of \$0.120 per ADS. On July 25, 2012, we paid a cash dividend in the amount of \$10.7 million, or the equivalent of \$0.063 per ADS. On July 31, 2013, we paid a cash

dividend in the amount of \$42.4 million, or the equivalent of \$0.250 per ADS. For more information on the stock dividend distribution, see “Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders.” The dividends for any of these years should not be considered representative of the dividends that would be paid in any future periods or of our dividend policy.

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

payment of taxes;

recovery of prior years' deficits, if any;

legal reserve (in an amount equal to 10% of annual net income after having deducted the above items until such time as its legal reserve equals the amount of its total paid-in capital ;

special reserve based on relevant laws or regulations, or retained earnings, if necessary;

dividends for preferred shares, if any; and

cash or stock bonus to employees (in an amount no more than 10% of annual net income) and remuneration for directors and supervisor(s) (in an amount no more than 2% of the annual net income); after having deducted the above items, based on a resolution of the board of directors; if stock bonuses are paid to employees, the bonus may also be appropriated to employees of subsidiaries under the board of directors' approval.

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

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

## 8.B. Significant Changes

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

## ITEM 9. THE OFFER AND LISTING

### 9.A. Offer and Listing Details

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

|                | High  | Low  | Average Daily Trading Volume<br>(in thousands of ADSs) |
|----------------|-------|------|--|
| 2009           | 3.97  | 1.32 | 529.6  |
| 2010           | 3.28  | 2.00 | 297.0  |
| 2011           | 2.69  | 0.97 | 293.1  |
| 2012           | 2.46  | 0.99 | 337.3  |
| First quarter  | 2.34  | 0.99 | 639.1  |
| Second quarter | 2.45  | 1.75 | 298.4  |
| Third quarter  | 2.10  | 1.47 | 151.2  |
| Fourth quarter | 2.46  | 1.77 | 265.1  |
| 2013           | 15.23 | 2.40 | 6,410.8  |
| First quarter  | 5.45  | 2.40 | 1,921.1  |
| Second quarter | 8.19  | 4.76 | 5,428.6  |



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|                |       |      |         |
|----------------|-------|------|---------|
| Third quarter  | 11.06 | 5.10 | 9,993.2 |
| Fourth quarter | 15.23 | 8.13 | 8,019.7 |
| October        | 11.49 | 9.16 | 8,501.9 |
| November       | 10.49 | 8.13 | 6,189.0 |
| December       | 15.23 | 9.91 | 9,235.2 |

|                         | High  | Low   | Average Daily Trading Volume<br>(in thousands of ADSs) |
|-------------------------|-------|-------|--|
| 2014                    |       |       |  |
| First quarter           | 16.15 | 11.22 | 7,847.8  |
| January                 | 15.33 | 12.72 | 8,429.2  |
| February                | 15.18 | 13.26 | 6,628.6  |
| March                   | 16.15 | 11.22 | 8,369.3  |
| April(through April 11) | 12.19 | 10.36 | 5,829.9  |

**9.B. Plan of Distribution**

Not applicable.

**9.C. Markets**

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

**9.D. Selling Shareholders**

Not applicable.

**9.E. Dilution**

Not applicable.

**9.F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION****10.A. Share Capital**

Not applicable.

**10.B. Memorandum and Articles of Association**

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

At our annual general meeting on August 6, 2009, our shareholders adopted the Second Amended and Restated Memorandum and Articles of Association, which became effective on August 10, 2009 and were filed as exhibits to our current report on Form 6-K with the SEC on July 13, 2009. These were adopted primarily in connection with our proposed Taiwan listing to meet the Taiwan Stock Exchange's primary listing requirement concerning protection of material shareholders' rights under the ROC's Company Act and Securities Exchange Act. At the same time, our shareholders also adopted the Third Amended and Restated Memorandum and Articles of Association, which were filed as an exhibit to our annual report on Form 20-F for the fiscal year ended December 31, 2009 with the SEC on

June 3, 2010 and are substantially the same as the Amended and Restated Memorandum and Articles of Association of our company except that our authorized share capital is stated to be \$300,000,000 divided into 1,000,000,000 shares of nominal or par value of \$0.3 each, on the condition that it shall become effective if the application made by our company to list its ordinary shares on the Taiwan Stock Exchange is rejected or aborted. On May 20, 2010, the Third Amended and Restated Memorandum and Articles of Association became effective as a result of the termination of our primary listing application to the Taiwan Stock Exchange.

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

### 10.C. Material Contracts

For a summary of any material contract entered into by us outside of the ordinary course of business during the last two years, see “Item 4A. History and Development of the Company” for more information on our subsidiary, Himax Display, which acquired all of the outstanding shares of capital stock of Spatial Photonics in exchange for a certain number of common stock of Himax Display.

### 10.D. Exchange Controls

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

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

With regard to inward and outward remittances, approval by the Central Bank of the ROC is generally required for any conversion exceeding, in aggregate in each calendar year, \$50 million (or its equivalent) for companies and \$5 million (or its equivalent) for Taiwanese and resident foreign individuals. A requirement is also imposed on all private enterprises to report all medium- and long-term foreign debt with the Central Bank of the ROC.

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

### 10.E. Taxation

#### Cayman Islands Taxation

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

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

(a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income or gains or appreciations shall apply to us or our operations;

(b) the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our ordinary shares, debentures or other obligations.

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



## United States Federal Income Taxation

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

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

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

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

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

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

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

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



***Taxation of Distributions***

Distributions received by U.S. Holders with respect to the ordinary shares or ADSs, other than certain *pro rata* distributions of ordinary shares, will constitute foreign-source dividend income for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. We do not to maintain records of earnings and profits in accordance with U.S. federal income tax principles, and therefore it is expected that distributions will generally be reported to U.S. Holders as dividends. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's (or in the case of ADSs, the depository's) receipt of the dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, certain dividends paid by qualified foreign corporations to certain non-corporate holders may be taxable at preferential tax rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NASDAQ Global Select Market, where our ADSs are traded. Our ordinary shares are not traded on a securities market in the United States. Non-corporate U.S. Holders of our ordinary shares or ADSs should consult their tax advisers regarding their eligibility for taxation at such preferential rates and whether they are subject to any special rules that limit their ability to be taxed at such preferential rates. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

***Sale and Other Disposition of Ordinary Shares or ADSs***

A U.S. Holder will generally recognize U.S.-source capital gain or loss for U.S. federal income tax purposes on the sale or other disposition of ordinary shares or ADSs, which will be long-term capital gain or loss if the ordinary shares or ADSs were held for more than one year. Long-term capital gains of certain non-corporate U.S. Holders may be taxable at preferential rates. The amount of gain or loss will be equal to the difference between the amount realized on the sale or other disposition and the U.S. Holder's tax basis in the ordinary shares or ADSs. The deductibility of capital losses is subject to limitations.

***Passive Foreign Investment Company Rules***

We believe that we were not a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes for our taxable year ended December 31, 2013.

In general, a non-U.S. company will be a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income (including cash). If a corporation owns at least 25% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning its proportionate share of the 25%-owned subsidiary’s assets and receiving its proportionate share of the 25%-owned subsidiary’s income. As PFIC status depends upon the composition of our income and assets and the value of our assets from time to time (and the value of our assets may be determined, in part, based on the market price of our shares and ADSs, which may fluctuate considerably from time to time given that market prices of certain technology companies historically have been volatile), there can be no assurance that we will not be a PFIC for any taxable year.

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

If we were a PFIC in a taxable year in which we pay a dividend or in the prior taxable year, the preferential tax rates discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

In addition, if U.S. Holder owns ordinary shares or ADSs during any year in which we are a PFIC, the U.S. Holder may be required to file certain information reports, containing such information as the U.S. Treasury may require.

***Information Reporting and Backup Withholding***

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



**10.F. Dividends and Paying Agents**

Not applicable.

**10.G. Statement by Experts**

Not applicable.

**10.H. Documents on Display**

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

**10.I. Subsidiary Information**

Not applicable.



**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk.* Our exposure to interest rate risk for changes in interest rates is primarily the interest income generated by our cash deposited with banks. In addition, we are exposed to interest rate risks related to bank borrowings with equal amounts of cash and time deposits pledged as collateral for the debt.

*Foreign Exchange Risk.* The U.S. dollar is our reporting currency. The U.S. dollar is also the functional currency for the majority of our operations. In 2013, more than 99.0% of our sales and cost of revenues were denominated in U.S. dollars. However, in December 2013, approximately 58% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder denominated in U.S. dollars. We anticipate that we will continue to conduct substantially all of our sales in U.S. dollars. We do not believe that we have a material currency risk with regard to the NT dollar. We believe the majority of any potential adverse foreign currency exchange impacts on our operating assets may be offset by a potential favorable foreign currency exchange impact on our operating liabilities. From time to time we have engaged in, and may continue to engage in, forward contracts to hedge against our foreign currency exposure.

As of December 31, 2013, no foreign currency exchange contracts are outstanding.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**



**12.A. Debt Securities**

Not applicable.

**12.B. Warrants and Rights**

Not applicable.



**12.C. Other Securities**

Not applicable.

**12.D. American Depositary Shares**



**Fees and Charges Payable by ADS Holders**



**Persons depositing or withdrawing  
shares or ADS holders must pay:**

**For:**

|  |  |
|--|--|
| \$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)   | Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property<br>Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates |
| \$.05 (or less) per ADS  | Any cash distribution to ADS holders   |
| A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for the issuance of ADSs                        | Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders   |
| \$.05 (or less) per ADS per calendar year  | Depositary services  |
| Registration or transfer fees  | Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares   |
| Expenses of the depositary   | Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) converting foreign currency to U.S. dollars  |
| Taxes and other governmental charges that the depositary or custodian have to pay on any ADS or share underlying an ADS, e.g., stock transfer taxes, stamp duty or withholding taxes | As necessary   |
| Any charges incurred by the depositary or its agents for servicing the deposited securities  | As necessary   |

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.





From time to time, the depositary may make payments to us to reimburse and/or share revenue from the fees collected from ADS holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the ADS program. In performing its duties under the deposit agreement, the depositary may use brokers, dealers or other service providers that are affiliates of the depositary and that may earn or share fees or commissions.

### **Fees and Other Payments from the Depositary to Us**

In 2013, we accrued other receivable of \$0.5 million netting of 30% withholding tax from the depositary relating to the ADR program, which was intended to cover certain of our expenses incurred in relation to the ADR program for the year, including:

<sup>1</sup> legal, audit and other fees incurred in connection with preparation of Form 20-F and annual reports and ongoing SEC compliance and listing requirements;

<sup>1</sup> director and officer insurance;

<sup>1</sup> stock exchange listing fees;

<sup>1</sup> non-deal roadshow expenses;

<sup>1</sup> costs incurred by financial printer and share certificate printer;

<sup>1</sup> postage for communications to ADR holders;

<sup>1</sup> costs of retaining third-party public relations, investor relations and/or corporate communications advisory firms in the U.S.; and

<sup>1</sup> costs incurred in connection with participation in retail investor shows and capital markets days.

### **Appointment of New Depositary Bank**

On May 29, 2012, we appointed The Bank of New York Mellon as our new American depositary receipt bank. Effective the same day, our ADR program was officially transferred to The Bank of New York Mellon and the contract is to last for ten years.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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

Not applicable.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

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

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

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
1. provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
1. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Management, with the participation of our chief executive and chief financial officers, assessed the effectiveness of our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of December 31, 2013 based on the criteria set forth in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, our management believes that our internal control over financial reporting was effective as of December 31, 2013.

### **Report of Independent Registered Public Accounting Firm**

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

We have audited Himax Technologies, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Himax Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Himax Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Himax Technologies, Inc. and subsidiaries as of December 31, 2012 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated April 15, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Taipei, Taiwan (the Republic of China)

April 15, 2014

### **Changes in Internal Control over Financial Reporting**

In 2013, no change in our internal control over financial reporting has occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16. [RESERVED]**

#### **16.A. Audit Committee Financial Expert**

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

#### **16.B. Code of Ethics**

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

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

#### **16.C. Principal Accountant Fees and Services**

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

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

We paid the following fees for professional services to KPMG for the years ended December 31, 2012 and 2013.

| Services                      | Year ended December 31, |            |
|-------------------------------|-------------------------|------------|
|                               | 2012                    | 2013       |
| Audit Fees <sup>(1)</sup>     | \$ 735,000              | \$ 737,000 |
| All Other Fees <sup>(2)</sup> | 4,000                   | 40,000     |
| Tax Fees <sup>(3)</sup>       | 2,000                   | -          |
| Total                         | \$ 741,000              | \$ 777,000 |

- Note: (1) Audit Fees. This category includes the audit of our annual financial statements and internal control over financial reporting, review of quarterly financial statements, services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes statutory audits required by the Tax Bureau of the ROC.
- (2) All Other Fees. This category consists of fees for the preparation of transfer pricing reports, conflict mineral investigation execution and review ROC Investment Commission required filing.
- (3) Tax Fees. This category consists of fees for general tax planning and advice.

#### 16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

#### 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

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

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

On June 20, 2011, our board of directors authorized another share buyback program allowing us to repurchase up to \$25.0 million of our ADSs in the open market or through privately negotiated transactions. As of March 31, 2014, we had repurchased a total of approximately \$13.4 million of our ADSs (approximately 9.5 million ADSs) under this program from the open market.

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

|                |                 |
|----------------|-----------------|
|                | (d)             |
|                | Approximate     |
| © Total Number | Dollar Value of |

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| Period                                | (a) Total<br>Number of<br>ADSs<br>Purchased | (b) Average Price<br>Paid per ADS | of ADSs<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | ADSs That May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|---------------------------------------|---|-----------------------------------|---|--|
| 2011 Share Buyback Program:           |   |                                   |   |  |
| January 3, 2012 to January 31, 2012   | 2,451,652                                   | \$ 1.31                           | 6,218,862   | \$ 17,185,592  |
| February 1, 2012 to February 27, 2012 | 1,873,787                                   | \$ 1.61                           | 8,092,649   | \$ 14,172,391  |
| March 6, 2012 to March 30, 2012       | 186,345                                     | \$ 1.75                           | 8,278,994   | \$ 13,847,214  |



| Period                                  | (a) Total<br>Number of<br>ADSs<br>Purchased | (b) Average Price<br>Paid per ADS | © Total Number<br>of ADSs<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | (d)<br>Approximate<br>Dollar Value of<br>ADSs That May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|---|---|-----------------------------------|---|---|
| April 3, 2012 to April 25, 2012         | 120,968                                     | \$ 1.96                           | 8,399,962   | \$ 13,610,673   |
| May 7, 2012 to May 31, 2012             | 83,839                                      | \$ 1.99                           | 8,483,801   | \$ 13,444,651   |
| June 1, 2012 to June 28, 2012           | 399,340                                     | \$ 1.86                           | 8,883,141   | \$ 12,703,233   |
| July 12, 2012 to July 31, 2012          | 169,188                                     | \$ 1.55                           | 9,052,329   | \$ 12,442,204   |
| August 1, 2012 to August 29, 2012       | 45,416                                      | \$ 1.72                           | 9,097,745   | \$ 12,364,315   |
| September 4, 2012 to September 26, 2012 | 48,276                                      | \$ 1.92                           | 9,146,021   | \$ 12,272,014   |
| October 1, 2012 to October 25, 2012     | 228,759                                     | \$ 1.94                           | 9,374,780   | \$ 11,830,123   |
| November 1, 2012 to November 13, 2012   | 113,876                                     | \$ 1.94                           | 9,488,656   | \$ 11,609,979   |

**16.F. Chang in Registrant's Certified Accountant**

Not applicable.

**16.G. Corporate Governance**

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

1 We follow home country practice that permits our board of directors to have less than a majority of independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(b)(1) of the Nasdaq Rules that require boards of U.S. companies to have a board of directors which is comprised of a majority of independent directors.

1 We follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).

1 We follow home country practice that permits a compensation committee to contain a director who does not meet the definition of "independence" within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(d)(1)(B) and (2)(B) of the Nasdaq Rules which requires the compensation committees of U.S. companies to be comprised solely of independent directors.

1 We follow home country practice that permits a nominations committee to contain a director who does not meet the definition of "independence" within the meaning of Rule 5605(a)(2) of the Nasdaq Rules, in lieu of complying with Rule 5605(e)(1)(B) of the Nasdaq Rules that requires the nominations committees of U.S. companies to be comprised solely of independent directors.

**16.H. Mine Safety Disclosure**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

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

- (a) Report of Independent Registered Public Accounting Firm dated April 15, 2014.
- (b) Consolidated Balance Sheets as of December 31, 2012 and 2013.
- (c) Consolidated Statements of Income for the years ended December 31, 2011, 2012 and 2013.
- (d) Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2012 and 2013.
- (e) Consolidated Statements of Changes in Equity for the years ended December 31, 2011, 2012 and 2013.
- (f) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2012 and 2013.
- (g) Notes to Consolidated Financial Statements.

**ITEM 19. EXHIBITS**

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 1.1                   | Third Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect. (Incorporated by reference to Exhibit 1.1 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on June 3, 2010.)   |
| 2.1                   | Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3).  |
| 2.2                   | Registrant's Specimen Certificate for Ordinary Shares. (Incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)  |
| 2.3                   | Form of Deposit Agreement among the Registrant, the Bank of New York Mellon, as depositary, and holders of the American depositary receipts. (Incorporated by reference to Exhibit (a) to the Registrant's Registration Statement on Form F-6 (file no. 333-181416) filed with the Securities and Exchange Commission on May 15, 2012.) |
| 4.1                   | Himax Technologies, Inc. 2011 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 99.3 to the Registrant's report of foreign private issuer on Form 6-k filed on July 18, 2011.)   |
| 4.2*                  | Agreement and Plan of Merger dated November 8, 2010 among Himax Display, Inc., Spatial Photonics, Inc. and Wen Hsieh. (Incorporated herein by reference to Exhibit 4.3 from our Annual Report on Form 20F (file no. 000-51847) filed with the Securities and Exchange Commission on May 20, 2011.)                                      |
| 8.1                   | List of Subsidiaries.   |
| 12.1                  | Certification of Jordan Wu, President and Chief Executive Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 12.2                  | Certification of Jackie Chang, Chief Financial Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 13.1                  | Certification pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 15.1                  | Consent of KPMG, Independent Registered Public Accounting Firm.   |

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

**SIGNATURES**

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

HIMAX TECHNOLOGIES, INC.

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

Date: April 15, 2014

**HIMAX TECHNOLOGIES, INC.**





**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|  | <b>Page</b> |
|--|-------------|
| Report of Independent Registered Public Accounting Firm  | F-1         |
| Consolidated Balance Sheets as of December 31, 2012 and 2013   | F-2         |
| Consolidated Statements of Income for the Years Ended December 31, 2011, 2012 and 2013               | F-4         |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2011, 2012 and 2013 | F-5         |
| Consolidated Statements of Changes in Equity for the Years Ended December 31, 2011, 2012 and 2013    | F-6         |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2012 and 2013           | F-9         |
| Notes to Consolidated Financial Statements   | F-11        |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**December 31, 2011, 2012 and 2013**

**(With Report of Independent Registered  
Public Accounting Firm Thereon)**

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Himax Technologies, Inc. (the “Company”) and subsidiaries as of December 31, 2012 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Himax Technologies, Inc. and subsidiaries as of December 31, 2012 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U. S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Himax Technologies, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 15, 2014 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG  
Taipei, Taiwan (the Republic of China)  
April 15, 2014

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****December 31, 2012 and 2013**  
**(in thousands of US dollars)**

|   | December 31,<br>2012 | 2013    |
|---|----------------------|---------|
| Assets  |                      |         |
| Current assets:   |                      |         |
| Cash and cash equivalents   | \$ 138,737           | 127,320 |
| Investments in marketable securities available-for-sale   | 172                  | 788     |
| Accounts receivable, less allowance for doubtful accounts, sales returns<br>and discounts of \$16,090 and \$16,288 at December 31, 2012 and 2013,<br>respectively | 135,747              | 200,725 |
| Accounts receivable from related parties, less allowance for sales returns<br>and discounts of \$174 and nil at December 31, 2012 and 2013,<br>respectively       | 73,258               | -       |
| Inventories   | 116,671              | 177,399 |
| Deferred income taxes   | 15,374               | 9,974   |
| Restricted cash, cash equivalents and marketable securities   | 74,100               | 108,399 |
| Prepaid expenses and other current assets   | 13,029               | 15,052  |
| Total current assets  | 567,088              | 639,657 |
| Investment in non-marketable equity securities  | 12,688               | 21,877  |
| Equity method investments   | 283                  | 190     |
| Property, plant and equipment, net  | 52,609               | 60,588  |
| Deferred income taxes   | 4,303                | 2,135   |
| Goodwill  | 28,138               | 28,138  |
| Other intangible assets, net  | 8,143                | 5,234   |
| Restricted marketable securities  | 173                  | 135     |
| Other assets  | 1,173                | 1,373   |
|   | 107,510              | 119,670 |
| Total assets  | \$ 674,598           | 759,327 |

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (Continued)**

**December 31, 2012 and 2013**  
**(in thousands of US dollars, except share and per share data)**

|   | December 31,<br>2012 | 2013     |
|---|----------------------|----------|
| Liabilities, Redeemable noncontrolling interest and Equity  |                      |          |
| Current liabilities:  |                      |          |
| Short-term debt   | \$ 73,000            | 105,500  |
| Accounts payable  | 135,546              | 151,290  |
| Income taxes payable  | 9,766                | 16,932   |
| Deferred income taxes   | 80                   | 45       |
| Other accrued expenses and other current liabilities  | 23,725               | 30,066   |
| Total current liabilities   | 242,117              | 303,833  |
| Income taxes payable  | 591                  | 483      |
| Accrued pension liabilities   | 242                  | 306      |
| Deferred income taxes   | 409                  | 185      |
| Other liabilities   | 3,081                | 2,305    |
| Total liabilities   | 246,440              | 307,112  |
| Redeemable noncontrolling interest  | -                    | 3,656    |
| Equity  |                      |          |
| Himax Technologies, Inc. stockholders' equity:  |                      |          |
| Ordinary shares, US\$0.3 par value, 1,000,000,000 shares authorized;<br>356,699,482 shares issued; and 339,149,508 shares and 341,049,418<br>shares outstanding at December 31, 2012 and 2013, respectively | 107,010              | 107,010  |
| Additional paid-in capital  | 104,911              | 106,636  |
| Treasury shares, at cost (17,549,974 shares and 15,650,064 shares at<br>December 31, 2012 and 2013, respectively)   | (12,469)             | (11,120) |
| Accumulated other comprehensive loss  | (137)                | (412)    |
| Unappropriated retained earnings  | 228,628              | 247,710  |
| Total Himax Technologies, Inc. stockholders' equity   | 427,943              | 449,824  |
| Noncontrolling interests  | 215                  | (1,265)  |
| Total equity  | 428,158              | 448,559  |
| Commitments and contingencies   |                      |          |
| Total liabilities, redeemable noncontrolling interest and equity  | \$ 674,598           | 759,327  |

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Income**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars, except per share data)**

|   | Year Ended December 31,<br>2011 | 2012    | 2013    |
|---|---------------------------------|---------|---------|
| Revenues:   |                                 |         |         |
| Revenues from third parties, net  | \$ 374,788                      | 485,281 | 684,184 |
| Revenues from related parties, net  | 258,233                         | 251,974 | 86,555  |
| Total revenues  | 633,021                         | 737,255 | 770,739 |
| Costs and expenses:   |                                 |         |         |
| Cost of revenues  | 507,449                         | 566,700 | 578,886 |
| Research and development  | 79,042                          | 70,913  | 80,368  |
| General and administrative  | 17,095                          | 17,139  | 18,147  |
| Bad debt expense (recovery)   | (1,541)                         | -       | 173     |
| Sales and marketing   | 14,368                          | 15,443  | 18,822  |
| Total costs and expenses  | 616,413                         | 670,195 | 696,396 |
| Operating income  | 16,608                          | 67,060  | 74,343  |
| Non operating income (loss):  |                                 |         |         |
| Interest income   | 556                             | 317     | 527     |
| Gains (losses) on sale of marketable securities, net                                      | 350                             | 648     | (8)     |
| Equity in losses of equity method investees   | (349)                           | (128)   | (122)   |
| Impairment loss on investments  | -                               | (1,299) | -       |
| Foreign currency exchange gains (losses), net   | 466                             | (452)   | 643     |
| Interest expense  | (455)                           | (352)   | (401)   |
| Other income (loss), net  | (368)                           | 92      | 418     |
|   | 200                             | (1,174) | 1,057   |
| Earnings before income taxes  | 16,808                          | 65,886  | 75,400  |
| Income tax expense  | 7,301                           | 15,748  | 19,476  |
| Net income  | 9,507                           | 50,138  | 55,924  |
| Net loss attributable to noncontrolling interests   | 1,199                           | 1,458   | 5,552   |
| Net income attributable to Himax Technologies, Inc. stockholders                          | \$ 10,706                       | 51,596  | 61,476  |
| Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders   | \$ 0.03                         | 0.15    | 0.18    |
| Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders | \$ 0.03                         | 0.15    | 0.18    |
| Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders              | \$ 0.06                         | 0.30    | 0.36    |
|   | \$ 0.06                         | 0.30    | 0.36    |



Diluted earnings per ADS attributable to Himax  
Technologies, Inc.  
stockholders

See accompanying notes to consolidated financial statements.

F-4

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars)**

|  | Year Ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2011                    | 2012   | 2013   |
| Net income   | \$ 9,507                | 50,138 | 55,924 |
| Other comprehensive income (loss):   |                         |        |        |
| Unrealized gains (losses) on securities, not subject to income tax:  | (655)                   | (589)  | (4)    |
| Unrealized holding gains (losses) on available-for-sale marketable securities arising during the period            | (305)                   | 59     | (12)   |
| Reclassification adjustment for realized losses (gains) included in net income                                     | (350)                   | (648)  | 8      |
| Foreign currency translation adjustments, net of tax of nil  | 128                     | 50     | 161    |
| Net unrecognized actuarial gain (loss), net of tax of \$(125), \$8 and \$(99) in 2011, 2012 and 2013, respectively | (573)                   | 233    | (401)  |
| Comprehensive income   | 8,407                   | 49,832 | 55,680 |
| Comprehensive loss attributable to noncontrolling interests  | 1,261                   | 1,461  | 5,521  |
| Comprehensive income attributable to Himax Technologies, Inc. stockholders   | \$ 9,668                | 51,293 | 61,201 |

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars and shares, except per share data)**

|   | Ordinary shares |            | Additional         | Treasury shares |         | Accumulated                             | Unappropriated       | Total Himax                                      |   |
|---|-----------------|------------|--------------------|-----------------|---------|---|----------------------|--|---|
|   | Shares          | Amount     | paid-in<br>capital | Shares          | Amount  | other<br>comprehensive<br>income (loss) | retained<br>earnings | Technologies,<br>Inc.<br>stockholders'<br>equity |   |
| Balance at January 1, 2011  | 353,843         | 106,153    | 100,291            | -               | -       | 1,204                                   | 198,230              | 405,878  | 1 |
| Shares acquisition  | -               | -          | -                  | (7,534)         | (4,627) | -                                       | -                    | (4,627)  | - |
| Shares retirement   | (114)           | (34)       | (91)               | 114             | 125     | -                                       | -                    | -  | - |
| Restricted stock vested   | 2,971           | 891        | (891)              | -               | -       | -                                       | -                    | -  | - |
| Share-based compensation expenses                                       | -               | -          | 4,124              | -               | -       | -                                       | -                    | 4,124  | 6 |
| New shares issued by subsidiary   | -               | -          | -                  | -               | -       | -                                       | -                    | -  | 5 |
| Sale (purchase) of subsidiary shares to (from) noncontrolling interests | -               | -          | (382)              | -               | -       | -                                       | -                    | (382)  | 1 |
| Declaration of cash dividends, \$0.060 per share                        | -               | -          | -                  | -               | -       | -                                       | (21,224)             | (21,224)   | - |
| Comprehensive Income:   |                 |            |                    |                 |         |   |                      |  |   |
| Net income (loss)   | -               | -          | -                  | -               | -       | -                                       | 10,706               | 10,706   | ( |
| Other comprehensive loss  | -               | -          | -                  | -               | -       | (1,038)                                 | -                    | (1,038)  | ( |
| Balance at December 31, 2011  | 356,700         | \$ 107,010 | 103,051            | (7,420)         | (4,502) | 166                                     | 187,712              | 393,437  | 1 |

See accompanying notes to consolidated financial statements.

F-6

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars and shares, except per share data)**

|   | Ordinary shares |            | Additional<br>paid-in<br>capital | Treasury shares |          | Accumulated<br>other<br>comprehensive<br>income (loss) | Unappropriated<br>retained<br>earnings | Total Himax<br>Technologies,<br>Inc.<br>stockholders'<br>equity |
|---|-----------------|------------|----------------------------------|-----------------|----------|--|--|---|
|   | Shares          | Amount     |                                  | Shares          | Amount   |  |  |   |
| Shares acquisition  | -               | -          | -                                | (11,443)        | (8,886)  | -  | -                                      | (8,886)   |
| Restricted stock vested   | -               | -          | (919)                            | 1,313           | 919      | -  | -                                      | -   |
| Share-based compensation expenses                                       | -               | -          | 1,936                            | -               | -        | -  | -                                      | 1,936   |
| New shares issued by subsidiary   | -               | -          | 342                              | -               | -        | -  | -                                      | 342   |
| Sale (purchase) of subsidiary shares to (from) noncontrolling interests | -               | -          | 501                              | -               | -        | -  | -                                      | 501   |
| Declaration of cash dividends, \$0.032 per share                        | -               | -          | -                                | -               | -        | -  | (10,680)                               | (10,680)  |
| Comprehensive Income:   |                 |            |                                  |                 |          |  |  |   |
| Net income (loss)   | -               | -          | -                                | -               | -        | -  | 51,596                                 | 51,596  |
| Other comprehensive loss  | -               | -          | -                                | -               | -        | (303)  | -                                      | (303)   |
| Balance at December 31, 2012  | 356,700         | \$ 107,010 | 104,911                          | (17,550)        | (12,469) | (137)  | 228,628                                | 427,943   |

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity (Continued)**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars and shares, except per share data)**

|   | Ordinary shares |            | Additional<br>paid-in<br>capital | Treasury shares |          | Accumulated<br>other<br>comprehensive<br>income (loss) | Unappropriated<br>retained<br>earnings | Total Himax<br>Technologies,<br>Inc.<br>stockholders'<br>equity |
|---|-----------------|------------|----------------------------------|-----------------|----------|--|--|---|
|   | Shares          | Amount     |                                  | Shares          | Amount   |  |  |   |
| Restricted stock vested   | -               | -          | (1,349)                          | 1,900           | 1,349    | -  | -                                      | -   |
| Share-based compensation expenses                                       | -               | -          | 1,838                            | -               | -        | -  | -                                      | 1,838   |
| Excess tax benefits from restricted stock vested                        | -               | -          | 1,271                            | -               | -        | -  | -                                      | 1,271   |
| New shares issued by subsidiary   | -               | -          | 2,426                            | -               | -        | -  | -                                      | 2,426   |
| Sale (purchase) of subsidiary shares to (from) noncontrolling interests | -               | -          | (2,461)                          | -               | -        | -  | -                                      | (2,461)   |
| Declaration of cash dividends, \$0.125 per share                        | -               | -          | -                                | -               | -        | -  | (42,394)                               | (42,394)  |
| Comprehensive Income:   |                 |            |                                  |                 |          |  |  |   |
| Net income (loss)   | -               | -          | -                                | -               | -        | -  | 61,476                                 | 61,476  |
| Other comprehensive income (loss)                                       | -               | -          | -                                | -               | -        | (275)  | -                                      | (275)   |
| Balance at December 31, 2013  | 356,700         | \$ 107,010 | 106,636                          | (15,650)        | (11,120) | (412)  | 247,710                                | 449,824   |

See accompanying notes to consolidated financial statements.

F-8

## HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars)**

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2011                    | 2012     | 2013     |
| Cash flows from operating activities:   |                         |          |          |
| Net income  | \$ 9,507                | 50,138   | 55,924   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |          |          |
| Depreciation and amortization   | 12,795                  | 13,299   | 14,309   |
| Bad debt expense  | -                       | -        | 173      |
| Share-based compensation expenses   | 4,190                   | 1,936    | 1,840    |
| Loss on disposals of property and equipment                                       | 121                     | 36       | 88       |
| Gain on disposals of equity method investment                                     | (313)                   | -        | (54)     |
| Loss (gain) on disposals of marketable securities, net                            | (350)                   | (648)    | 8        |
| Unrealized loss (gain) on conversion option                                       | 934                     | (28)     | -        |
| Interest income from amortization of discount on investment in corporate bonds    | (170)                   | (101)    | -        |
| Impairment loss on investment   | -                       | 1,299    | -        |
| Equity in losses of equity method investees                                       | 349                     | 128      | 122      |
| Valuation gain on financial liabilities   | -                       | -        | (160)    |
| Issuance of new shares by subsidiary for royalties                                | -                       | -        | 49       |
| Deferred income tax expense   | 6,492                   | 8,851    | 7,409    |
| Inventories write downs   | 9,138                   | 12,418   | 10,759   |
| Changes in operating assets and liabilities:                                      |                         |          |          |
| Accounts receivable   | (21,068)                | (34,467) | (65,106) |
| Accounts receivable from related parties  | 16,181                  | 6,591    | 73,267   |
| Inventories   | (4,135)                 | (16,104) | (71,488) |
| Prepaid expenses and other current assets   | 951                     | 1,421    | (1,857)  |
| Accounts payable  | 18,431                  | 1,192    | 15,744   |
| Income taxes payable  | (5,616)                 | 6,711    | 7,055    |
| Other accrued expenses and other current liabilities                              | (2,092)                 | (172)    | 2,812    |
| Other liabilities   | (1,897)                 | (333)    | 229      |
| Net cash provided by operating activities   | 43,448                  | 52,167   | 51,123   |
| Cash flows from investing activities:   |                         |          |          |
| Purchases of property and equipment   | (18,859)                | (6,560)  | (18,412) |
| Proceeds from disposals of property and equipment                                 | 7                       | 1        | -        |
| Purchases of available-for-sale marketable securities                             | (17,490)                | (19,609) | (22,410) |
| Disposals of available-for-sale marketable securities                             | 25,834                  | 25,043   | 21,792   |
| Disposals of equity method investments  | 371                     | -        | -        |
| Purchases of investment securities  | -                       | (3)      | (9,189)  |
| Proceeds from (repayments of) refundable deposits, net                            | 34                      | (106)    | (541)    |
| Pledges of restricted cash, cash equivalents and marketable securities            | (94)                    | (7)      | (1,761)  |
|   | -                       | 546      | (4)      |



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Cash increase (decrease) resulting from change in consolidated  
entity

|                                       |          |       |          |
|---------------------------------------|----------|-------|----------|
| Net cash used in investing activities | (10,197) | (695) | (30,525) |
|---------------------------------------|----------|-------|----------|

See accompanying notes to consolidated financial statements.

F-9

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)**

**Years ended December 31, 2011, 2012 and 2013**  
**(in thousands of US dollars)**

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2011                    | 2012      | 2013      |
| Cash flows from financing activities:  |                         |           |           |
| Payments of cash dividends   | \$ (21,224)             | (10,680)  | (42,394)  |
| Excess tax benefits from share-based compensation  | -                       | -         | 1,271     |
| Proceeds from disposals of subsidiary shares to noncontrolling interests by Himax Technologies Limited               | 17                      | 97        | -         |
| Proceeds from disposals of subsidiary shares to noncontrolling interests by Himax Imaging, Inc.                      | 3,224                   | 436       | 64        |
| Purchases of subsidiary shares from noncontrolling interests   | (1,958)                 | (14)      | (896)     |
| Releases (pledges) of restricted cash, cash equivalents and marketable securities (for borrowing of short-term debt) | (26,700)                | 11,200    | (32,500)  |
| Proceeds from issuances of new shares by subsidiaries  | 53                      | 116       | 9,852     |
| Payments to repurchase ordinary shares   | (4,627)                 | (8,886)   | -         |
| Proceeds from short-term debt  | 277,200                 | 304,000   | 352,320   |
| Repayments of short-term debt  | (250,000)               | (315,200) | (319,820) |
| Net cash used in financing activities  | (24,015)                | (18,931)  | (32,103)  |
| Effect of foreign currency exchange rate changes on cash and cash equivalents  | 86                      | 32        | 88        |
| Net increase (decrease) in cash and cash equivalents   | 9,322                   | 32,573    | (11,417)  |
| Cash and cash equivalents at beginning of year   | 96,842                  | 106,164   | 138,737   |
| Cash and cash equivalents at end of year   | \$ 106,164              | 138,737   | 127,320   |
| Supplemental disclosures of cash flow information:   |                         |           |           |
| Cash paid during the year for:   |                         |           |           |
| Interest   | \$ 490                  | 352       | 401       |
| Income taxes   | \$ 6,326                | 456       | 3,272     |
| Supplemental disclosures of non-cash investing activities:   |                         |           |           |
| Issuance of ordinary shares by Himax Display, Inc. to acquire the net assets of Spatial Photonics, Inc.              | \$ -                    | 270       | -         |

See accompanying notes to consolidated financial statements.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****December 31, 2011, 2012 and 2013****Note 1. Background, Principal Activities and Basis of Presentation****Background**

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

| Subsidiary                               | Main activities                               | Jurisdiction of<br>Incorporation | Percentage of<br>Ownership<br>December 31,<br>2012 |   | 2013   |   |
|--|---|----------------------------------|--|---|--------|---|
| Himax Technologies Limited               | IC design and sales                           | ROC                              | 100.00   | % | 100.00 | % |
| Himax Technologies Korea Ltd.            | Sales   | South Korea                      | 100.00   | % | 100.00 | % |
| Himax Technologies Japan Ltd.            | Sales   | Japan                            | -  |   | 100.00 | % |
| Himax Semiconductor, Inc.                | IC design and sales                           | ROC                              | 100.00   | % | 100.00 | % |
| Himax Technologies (Samoa), Inc.         | Investments                                   | Samoa                            | 100.00   | % | 100.00 | % |
| Himax Technologies (Suzhou), Co., Ltd.   | Sales   | PRC                              | 100.00   | % | 100.00 | % |
| Himax Technologies (Shenzhen), Co., Ltd. | Sales   | PRC                              | 100.00   | % | 100.00 | % |
| Himax Display, Inc.                      | LCOS and MEMS design, manufacturing and sales | ROC                              | 81.53  | % | 76.70  | % |
| Integrated Microdisplays Limited         | LCOS sales                                    | Hong Kong                        | 81.53  | % | 76.70  | % |
| Himax Display (USA) Inc. (1)             | MEMS design                                   | Delaware, USA                    | 81.53  | % | 76.70  | % |
| Himax Analogic, Inc.                     | IC design and sales                           | ROC                              | 74.60  | % | 83.17  | % |
| Himax Imaging, Inc.                      | Investments                                   | Cayman Islands                   | 100.00   | % | 100.00 | % |
| Himax Imaging, Ltd.                      | IC design and sales                           | ROC                              | 87.95  | % | 88.07  | % |
| Himax Imaging Corp.                      | IC design                                     | California, USA                  | 100.00   | % | 88.07  | % |
| Argo Limited                             | Investments                                   | Cayman Islands                   | 100.00   | % | 100.00 | % |
| Tellus Limited                           | Investments                                   | Cayman Islands                   | 100.00   | % | 100.00 | % |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

| Subsidiary                                    | Main activities   | Jurisdiction of Incorporation | Percentage of Ownership December 31, 2012 |   | 2013   |   |
|---|---|-------------------------------|---|---|--------|---|
| Himax Media Solutions, Inc.                   | TFT-LCD television, monitor chipset operations, ASIC service and IP licensing | ROC                           | 78.28                                     | % | 92.37  | % |
| Himax Media Solutions (Hong Kong) Limited (2) | Investments   | Hong Kong                     | 78.28                                     | % | -      |   |
| Harvest Investment Limited                    | Investments   | ROC                           | 100.00                                    | % | 100.00 | % |
| Iris Optronics Co., Ltd. (3)                  | E-paper manufacturing and sales   | ROC                           | 22.22                                     | % | -      |   |

(1) Spatial Photonics, Inc. has was renamed Himax Display (USA) Inc. on July 3, 2012.

(2) Himax Media Solutions (Hong Kong) Limited was deregistered and dissolved on October 25, 2013.

(3) Iris Optronics Co., Ltd. (“Iris”) was incorporated on May 18, 2012 and the paid-in capital was \$153 thousand. The Company initially had a controlling financial interest in Iris because it had a majority voting interest at Iris board of directors. As a result, Iris was included in the Company’s consolidated financial statements since that date. On October 7, 2013, the Company no longer had a majority voting interest at Iris board of directors level, but still has the ability to exercise significant influence over the operating and financial policies of Iris. Therefore, the Company ceased consolidating Iris in its consolidated financial statements and now accounts for its investment in Iris using the equity method. The Company re-measured its investment in Iris at fair value due to the change in control and recognized a re-measurement gain.

Since March 2006, Himax Technologies, Inc.’s ordinary shares have been quoted on the NASDAQ Global Market under the symbol “HIMX” in the form of ADSs and two ordinary shares represent one ADS effect from August 10, 2009.

**Principal Activities**

Himax Technologies, Inc. and subsidiaries (collectively, the Company) is a fabless semiconductor solution provider dedicated to display imaging processing technologies. The Company is a worldwide market leader in display driver ICs and timing controllers used in TVs, laptops, monitors, mobile phones, tablets, digital cameras, car navigation, and many other consumer electronics devices. Additionally, the Company designs and provides controllers for touch sensor displays, LCOS micro-displays used in palm-size projectors and head-mounted displays, LED driver ICs, power management ICs, scaler products for monitors and projectors, tailor-made video processing IC solutions, and silicon IPs. The Company also offers digital camera solutions, including CMOS image sensors and wafer level optics, which are used in a wide variety of applications such as mobile phone, tablet, laptop, TV, PC camera, automobile,

security and medical devices.

F-12

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

**Basis of Presentation**

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

**Note 2.**

**Summary of Significant Accounting Policies**

(a)

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts and operations of Himax Technologies, Inc. and its majority owned subsidiaries and entities that it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

(b)

**Use of Estimates**

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment and intangible assets; allowances for doubtful accounts and sales returns; the fair value of financial instruments, the recoverability of deferred income tax assets, property, plant and equipment, inventory, the fair value of share-based compensation, the fair value of acquired tangible and intangible assets, potential impairment of intangible assets, goodwill, marketable securities and other investment securities and liabilities for employee benefit obligations, and income tax uncertainties and other contingencies. Management bases its estimates on historical experience and also on assumptions that it believes are reasonable. Management assesses these estimates on a regular basis; however, actual results could differ materially from those estimates.

(c)

**Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2012 and 2013, the Company had \$45,000 thousand and \$35,684 thousand of cash equivalents, respectively, in US dollar denominated time deposits with original maturities of less than three months. As of December 31, 2012 and 2013, cash, including time deposits in the amount of \$73,000 thousand and \$105,500 thousand, respectively, had been pledged as collateral for short term debts which would be released within one year and are therefore excluded from cash and cash equivalents for purposes of the consolidated statements of cash flows.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

(d)

**Investment Securities**

Investment securities as of December 31, 2012 and 2013 consist of investments in marketable securities and investments in non-marketable equity securities. All of the Company's investments in marketable securities are classified as available-for-sale securities and are reported at fair value.

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

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

As of December 31, 2012 and 2013, the Company had \$1,273 thousand and \$3,034 thousand, respectively, of restricted marketable securities, consisting of negotiable certificate of deposits and New Taiwan dollar (NT\$) and US dollar denominated time deposits with original maturities of more than three months, which had been pledged as collateral for customs duties and guarantees for government grants.

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

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

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

(e) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of collectability of accounts receivable on a monthly basis. In establishing the required allowance, management considers the historical collection experience, current receivable aging and the current trend in the credit quality of the Company's customers. Management reviews its allowance for doubtful accounts quarterly. Account balance is charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(f) Inventories

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

(g) Property, Plant and Equipment

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



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

(h)

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the business combination of the Company's acquisition of Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.) in 2007 and Himax Display (USA) Inc. (formerly Spatial Photonics, Inc.) in 2012, that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The Company tests goodwill for impairment on the end day of October each fiscal year. Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which provides an entity the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The Company adopted this ASU in 2012.

When testing goodwill for impairment, management may access qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, management may bypass this qualitative assessment for some or all of its reporting units and perform step 1 of the two-step goodwill impairment test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

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

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



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

Management assigned the Company's assets and liabilities to each reporting unit based on either specific identification or by using judgment for the remaining assets and liabilities that are not specific to a reporting unit. Goodwill from acquisition of Himax Semiconductor, Inc. has been assigned to Driver IC reporting unit and goodwill from acquisition of Himax Display (USA) Inc. has been assigned to Projection displays reporting unit because those reporting units are expected to benefit from the synergies of the business combinations.

For Projection displays reporting unit in 2012 and 2013 as well as Driver IC reporting unit in 2013, management qualitatively assessed whether it is more likely than not that the respective fair values of these reporting units are less than their carrying amounts, including goodwill. Based on that assessment, management determined that this condition, for these reporting units, does not exist. As such, performing the first step of the two-step test impairment test for these reporting units was unnecessary.

For Driver IC reporting unit in 2011 and 2012, management compared the carrying value of individual reporting unit, inclusive of assigned goodwill, to its respective fair value - step 1 of the two-step impairment test, and concluded that goodwill was not impaired.

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

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

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The following is a summary of activity in goodwill by reportable segment.

|                            | Driver IC<br>(in thousands) | Non-driver<br>products | Consolidated<br>Total |
|----------------------------|-----------------------------|------------------------|-----------------------|
| Balance, December 31, 2011 | \$ 26,846                   | -                      | 26,846                |
| Balance, December 31, 2012 | \$ 26,846                   | 1,292                  | 28,138                |
| Balance, December 31, 2013 | \$ 26,846                   | 1,292                  | 28,138                |

## (i) Other Intangible Assets

Acquired intangible assets include patents, developed technology, customer relationship assets and in-process research and development (IPR&D) acquired in a business combination at December 31, 2012 and 2013. Intangible assets with a definite life are amortized on a straight-line basis over the following estimated useful lives: patents 5 to 15 years, technology 5 to 7 years and customer relationship 7 years.

IPR&D assets acquired in a business combination are recognized as assets at the acquisition date at their acquisition-date fair value, rather than charged to expense, regardless of whether they have an alternative future use. In addition, IPR&D assets acquired in a business combination are to be accounted for as indefinite-lived intangible assets until the project is completed or abandoned. Subsequent R&D costs associated with the acquired IPR&D projects are charged to expense as incurred.

IPR&D has an indefinite life and is not amortized until completion and development of the project at which time the IPR&D becomes an amortizable asset. If the related project is not completed in a timely manner, the Company may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value.

## (j) Impairment of Long-Lived Assets

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

(k)

**Revenue Recognition**

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

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

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

(l)

**Product Warranty**

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

(m)

**Research and Development and Advertising Costs**

The Company's research and development and advertising expenditures are charged to expense as incurred. Advertising expenses for the years ended December 31, 2011, 2012 and 2013, were \$59 thousand, \$73 thousand and \$15 thousand, respectively.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

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

(n) Employee Retirement Plan

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

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

The Company has adopted a defined contribution plan covering full-time employees in the ROC (the “Defined Contribution Plan”) beginning July 1, 2005 pursuant to ROC Labor Pension Act. Pension cost for a period is determined based on the contribution called for in that period. Substantially all participants in the Defined Benefit Plan have been provided the option of continuing to participate in the Defined Benefit Plan, or to participate in the Defined Contribution Plan on a prospective basis from July 1, 2005. Accumulated benefits attributed to participants that elect to change plans are not impacted by their election.

(o) Income Taxes

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

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



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****(p) Foreign Currency Translation and Foreign Currency Transactions**

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

**(q) Earnings Per Ordinary Share**

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

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

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2011                    | 2012    | 2013    |
| Net income attributable to Himax Technologies, Inc. stockholders (in thousands)         | \$ 10,706               | 51,596  | 61,476  |
| Denominator for basic earnings per ordinary share:                                      |                         |         |         |
| Weighted average number of ordinary shares outstanding (in thousands)                   | 353,771                 | 341,056 | 340,423 |
| Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders | \$ 0.03                 | 0.15    | 0.18    |



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2011                    | 2012    | 2013    |
| Net income attributable to Himax Technologies, Inc. stockholders (in thousands)           | \$ 10,706               | 51,596  | 61,476  |
| Denominator for diluted earnings per ordinary share:                                      |                         |         |         |
| Weighted average number of ordinary shares outstanding (in thousands)                     | 353,771                 | 341,056 | 340,423 |
| Unvested RSUs (in thousands)  | 56                      | 468     | 3,195   |
|   | 353,827                 | 341,524 | 343,618 |
| Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders | \$ 0.03                 | 0.15    | 0.18    |

## (r) Share-Based Compensation

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

## (s) Segment Reporting

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

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

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

(t) Noncontrolling Interests

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

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

|  | Year Ended December 31, |        |         |
|--|-------------------------|--------|---------|
|  | 2011                    | 2012   | 2013    |
| Net income attributable to Himax Technologies, Inc. stockholders   | \$ 10,706               | 51,596 | 61,476  |
| Transfers (to) from the noncontrolling interests:  |                         |        |         |
| Increase (decrease) in Himax Technologies, Inc.'s paid-in capital for sale of shares of subsidiaries                     | 2,150                   | 501    | (1,455) |
| Decrease in Himax Technologies, Inc.'s paid-in capital for purchase of shares of subsidiaries                            | (2,532)                 | -      | (1,006) |
| Change from net income attributable to Himax Technologies, Inc. stockholders and transfers from noncontrolling interests | \$ 10,324               | 52,097 | 59,015  |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

(u) Fair Value Measurements

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

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

- (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- (ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- (iii) Level 3 inputs are unobservable inputs for the asset or liability.

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 3.****Acquisition**

On July 3, 2012, the Company completed the acquisition of all of the outstanding common shares of Spatial Photonics, Inc. ("SP") with a total consideration approximating \$5.7 million that included newly issued ordinary shares in Himax Display, Inc. and cash. Himax Display Inc. issued 6,762,537 ordinary shares valued at \$270 thousand. The fair value of Himax Display Inc.'s ordinary shares was determined using the assistance of an independent appraiser using the discounted cash flow method. The Company's previously held equity interests in SP was re-measured at fair value, which was determined using the assistance of an independent appraiser using the equity value allocation method at acquisition date. The re-measurement loss on the previously held equity interests in SP was \$1,061 thousand which is included in other non-operating loss within "impairment loss on investment" in the consolidated statements of income.

SP was then renamed as Himax Display (USA) Inc. ("HDI (USA)"). The results of HDI (USA)'s operations have been included in the Company's consolidated financial statements since that date. The amounts of HDI (USA)'s revenues and losses included in the consolidated statements of income from the acquisition date to the period ended December 31, 2012 were nil and \$1,390 thousand, respectively. HDI (USA) develops and manufactures high definition, high brightness, and high contrast projection displays for business and consumer applications. As a result of the acquisition, the Company is expected to diversify its projection product portfolio.

The following table summarizes the consideration paid for HDI (USA) and the amounts of estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

|   | At July 3, 2012<br>(in thousands) |
|---|-----------------------------------|
| Consideration:  |                                   |
| Fair value of previously held equity interests                              | \$ 5,439                          |
| Fair value of Himax Display Inc.'s ordinary shares                          | 270                               |
| Cash  | 3                                 |
| Total consideration transferred   | 5,712                             |
| Acquisition related costs included in G&A expense                           | \$ 347                            |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |                                   |
| Current assets  | \$ 632                            |
| Property and equipment  | 267                               |
| Other assets  | 35                                |
| Intangible assets   | 6,157                             |
| Current liabilities   | (78)                              |
| Other liabilities   | (1,610)                           |
| Deferred income taxes   | (983)                             |
| Total identifiable net assets acquired                                      | 4,420                             |
| Goodwill  | \$ 1,292                          |

F-25

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

Acquired tangible assets were valued at estimates of their current fair values. The valuation of acquired intangible assets was determined based on management's estimates and consultation with an independent appraiser. The multi-period excess earnings method was used in applying the income approach to determine the fair value of acquired intangible assets. Significant assumptions inherent in the valuation method for acquired intangible assets are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates. When performing the multi-period excess earnings method for acquired intangible assets, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are regularly reviewed by management. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to investing their capital in reporting units. The Company used a discount rate based on the weighted average cost of capital, which was 22.0% for developed technology and 23.0% for in-process R&D asset.

Of the \$6,157 thousand of the acquired intangible assets, \$722 thousand was assigned to in-process R&D asset that is capitalized as an indefinite-lived intangible asset until completion or abandonment of the associated project. The remaining acquired intangible assets, core and developed technology, will be amortized based on a weighted-average useful life of approximately 7 years. Himax Display paid a premium for this acquisition because of expected synergistic benefits, including diversified its technology and product mix. Goodwill is not expected to be deductible for tax purpose.

The property and equipment was valued at the current replacement cost for similar capacity. The replacement cost was estimated based on the Company's actual historical cost less estimated accumulated depreciation.

The following unaudited pro forma results of operations for the years ended December 31, 2011 and 2012 are presented as if the acquisition had been consummated on January 1, 2011, (dollars in thousands except per share amounts):

|  | Year ended<br>December 31,<br>(unaudited) |         |
|--|---|---------|
|  | 2011                                      | 2012    |
| Net revenues   | \$ 633,177                                | 737,255 |
| Net income attributable to Himax Technologies, Inc. stockholders                           | \$ 2,895                                  | 49,262  |
| Basic and diluted earnings per share attributable to Himax Technologies, Inc. stockholders | \$ 0.01                                   | 0.14    |

The above unaudited pro forma information does not reflect any incremental direct costs, including any restructuring charges to be recorded in connection with the acquisition, or any potential cost savings that may result from the consolidation of certain operations of the Company or HDI (USA). Accordingly, the unaudited pro forma financial information above not necessarily indicative the actual results that would have occurred had the acquisition of HDI (USA) been combined during the periods presented, nor is it necessarily indicative of future consolidated results of operations.

F-26

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 4. Investments in Marketable Securities Available-for sale**

Following is a summary of marketable securities as of December 31, 2012 and 2013:

|  | December 31, 2012                   |                              |                               |                              |
|--|-------------------------------------|------------------------------|-------------------------------|------------------------------|
|  | Aggregate<br>Cost<br>(in thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Aggregate<br>Market<br>Value |
| Time deposit with original maturities more than three months | \$ 150                              | 22                           | -                             | 172                          |
|  | December 31, 2013                   |                              |                               |                              |
|  | Aggregate<br>Cost<br>(in thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Aggregate<br>Market<br>Value |
| Time deposit with original maturities more than three months | \$ 771                              | 17                           | -                             | 788                          |

The Company's portfolio of available for sale marketable securities by contractual maturity or the expected holding period as of December 31, 2012 and 2013 is due in one year or less.

Information on sales of available for sale marketable securities for the years ended December 31, 2011, 2012 and 2013 is summarized below.

| Period    | Proceeds<br>from sales<br>(in thousands) | Gross<br>realized gains | Gross<br>realized losses |
|-----------|--|-------------------------|--------------------------|
| Year 2011 | \$ 25,834                                | 420                     | (70)                     |
| Year 2012 | \$ 19,612                                | 35                      | (32)                     |
| Year 2013 | \$ 21,792                                | 17                      | (25)                     |

**Note 5. Allowance for Doubtful Accounts, Sales Returns and Discounts**

The activity in the allowance for doubtful accounts, sales returns and discounts for the years ended December 31, 2011, 2012 and 2013 follows:





**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Allowance for doubtful accounts**

| Period    | Balance at<br>beginning<br>of year<br>(in thousands) | Charges<br>(credits) to<br>earnings | Amounts<br>utilized | Balance at<br>end of<br>year |
|-----------|--|-------------------------------------|---------------------|------------------------------|
| Year 2011 | \$ 16,727  | (1,541)                             | -                   | 15,186                       |
| Year 2012 | \$ 15,186  | -                                   | -                   | 15,186                       |
| Year 2013 | \$ 15,186  | 173                                 | -                   | 15,359                       |

**Allowance for sales returns and discounts**

| Period    | Balance at<br>beginning<br>of year<br>(in thousands) | Additions | Amounts<br>utilized | Balance at<br>end of<br>year |
|-----------|--|-----------|---------------------|------------------------------|
| Year 2011 | \$ 591   | 3,385     | (3,191)             | 785                          |
| Year 2012 | \$ 785   | 7,386     | (7,093)             | 1,078                        |
| Year 2013 | \$ 1,078   | 7,272     | (7,421)             | 929                          |

**Note 6.****Equity Method Investments**

As of December 31, 2012 and 2013, equity method investments consisted of the following:

|                                     | December 31,<br>2012 |              | 2013   |              |
|-------------------------------------|----------------------|--------------|--------|--------------|
|                                     | Amount               | Holding<br>% | Amount | Holding<br>% |
| Create Electronic Optical Co., Ltd. | \$ 283               | 21.11        | 172    | 21.11        |
| Iris (See Note 1)                   | -                    | -            | 18     | 6.41         |
|                                     | \$ 283               |              | 190    |              |

The Company disposed of Hangzhou Crystal Display Technology Co., Ltd. equity to its other shareholders in June 2011 and resulted in \$313 thousand gain on disposal of the equity, which was presented in other income of the consolidated statements of income.

Create Electronic Optical Co., Ltd. (C.E.O.) is a camera module supplier. At investment date, the difference between the carrying amount of the Company's investment in C.E.O. and the underlying equity in the net assets of C.E.O. was \$370 thousand which was resulting from C.E.O.'s identifiable intangible assets and was amortized over 3 years. At the December 31, 2013, the excess of cost of such investment in C.E.O. over the Company's share of the net assets of C.E.O. was fully amortized.

F-28

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

As described in Note 1, Iris was deconsolidated at October 7, 2013, and a re-measurement gain of \$54 thousand was recognized in other income of the consolidated statements of income.

As of December 31, 2013, it was not practicable for management to estimate the fair values of the Company's investments in C.E.O. and Iris due to the lack of quoted market price and the inability to estimate the fair values without incurring excessive costs. However, management identified no events or changes in circumstance that may significantly affect the Company's ability on recovering the carrying values of these investments.

**Note 7.****Inventories**

As of December 31, 2012 and 2013, inventories consisted of the following:

|                 | December 31,<br>2012<br>(in thousands) | 2013    |
|-----------------|--|---------|
| Finished goods  | \$ 39,988                              | 53,957  |
| Work in process | 60,227                                 | 70,388  |
| Raw materials   | 16,424                                 | 52,994  |
| Supplies        | 32                                     | 60      |
|                 | \$ 116,671                             | 177,399 |

Inventory write-downs were \$9,138 thousand, \$12,418 thousand and \$10,759 thousand for the years ended December 31, 2011, 2012 and 2013, respectively, and are included in cost of revenues.

**Note 8.****Other Intangible Assets, Other than Goodwill**

|                                     | December 31, 2012                             |   |                             |
|-------------------------------------|---|---|-----------------------------|
|                                     | Gross<br>carrying<br>amount<br>(in thousands) | Weighted<br>average<br>amortization<br>period | Accumulated<br>amortization |
| Amortized intangible assets:        |   |   |                             |
| Technology                          | \$ 11,774                                     | 7 years                                       | 5,762                       |
| Customer relationship               | 8,100   | 7 years                                       | 6,847                       |
| Patents                             | 842   | 6 years                                       | 686                         |
| Total                               | \$ 20,716                                     |   | 13,295                      |
| Unamortized intangible assets:      |   |   |                             |
| In-process research and development | \$ 722  |   |                             |



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|                                     | December 31, 2013                             |   |                             |
|-------------------------------------|---|---|-----------------------------|
|                                     | Gross<br>carrying<br>amount<br>(in thousands) | Weighted<br>average<br>amortization<br>period | Accumulated<br>amortization |
| Amortized intangible assets:        |   |   |                             |
| Technology                          | \$ 11,774                                     | 7 years                                       | 7,430                       |
| Customer relationship               | 8,100   | 7 years                                       | 8,004                       |
| Patents                             | 842   | 6 years                                       | 770                         |
| Total                               | \$ 20,716                                     |   | 16,204                      |
| Unamortized intangible assets:      |   |   |                             |
| In-process research and development | \$ 722  |   |                             |

Amortization expense for the years ended December 31, 2011, 2012 and 2013 was \$2,180 thousand, \$2,508 thousand and \$2,909 thousand, respectively. Estimated amortization expense for the next five years is \$953 thousand in 2014, and \$783 thousand in 2015, 2016, 2017 and 2018.

**Note 9.****Property, Plant and Equipment**

|   | December 31,<br>2012<br>(in thousands) | 2013     |
|---|--|----------|
| Land                                      | \$ 14,328                              | 14,328   |
| Building and improvements                 | 17,740                                 | 18,109   |
| Machinery                                 | 31,494                                 | 39,530   |
| Research and development equipment        | 18,020                                 | 23,030   |
| Software                                  | 10,540                                 | 12,080   |
| Office furniture and equipment            | 7,681                                  | 9,125    |
| Others                                    | 17,282                                 | 19,362   |
|   | 117,085                                | 135,564  |
| Accumulated depreciation and amortization | (66,420)                               | (76,997) |
| Prepayment for purchases of equipment     | 1,944                                  | 2,021    |
|   | \$ 52,609                              | 60,588   |

Depreciation and amortization of these assets for the years ended December 31, 2011, 2012 and 2013 were \$10,615 thousand, \$10,791 thousand and \$11,400 thousand, respectively.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 10.****Investment securities**

(a)

**Investments in Non-marketable Equity Securities**

Following is a summary of such investments which are accounted for using the cost method as of December 31, 2012 and 2013:

|                                   | December 31,<br>2012 | 2013   |
|-----------------------------------|----------------------|--------|
|                                   | (in thousands)       |        |
| Chi Lin Optoelectronics Co., Ltd. | \$ 625               | 625    |
| Chi Lin Technology Co. Ltd.       | 432                  | 432    |
| Jetronics International Corp.     | 1,600                | 1,600  |
| C Company                         | 8,962                | 8,962  |
| S Company                         | -                    | 5,189  |
| L Company                         | -                    | 4,000  |
| eTurboTouch Technology Inc.       | 477                  | 477    |
| Oculon Optoelectronics Inc.       | 309                  | 309    |
| Shinyoptics Corp.                 | 283                  | 283    |
|                                   | \$ 12,688            | 21,877 |

In 2012, management considered the Company's investment in equity of eTurboTouch Technology Inc. was impaired as it did not believe that the investment carrying value would be recovered due to the investee's significant deterioration in the earnings performance. Management believes that Company's proportionate equity interest in the net book value of investee as is the best estimate of the recoverable amount. As a result, the Company recognized a \$238 thousand impairment loss which is included in other non-operating loss within "impairment loss on investment" in the consolidated statements of income.

As of December 31, 2012 and 2013, it was not practicable for management to estimate the fair values of the Company's investments in equity listed above due to the lack of quoted market price and the inability to estimate the fair value without incurring excessive costs. However, management identified no events or changes in circumstance that may significantly affect the Company's ability on recovering the carrying values of these investments.

(b)

**Investments in corporate convertible bonds**

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

August 2012. Proceed from the sale of the bonds was \$5,431 thousand and realized gains from the sale included in “Gains on sale of marketable securities, net” was \$645 thousand.

F-31



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 11. Other Accrued Expenses and Other Current Liabilities**

|   | December 31,<br>2012<br>(in thousands) | 2013   |
|---|--|--------|
| Accrued mask, mold fees and other expenses for RD | \$ 7,582                               | 8,981  |
| Payable for purchases of equipment                | 1,694                                  | 2,897  |
| Accrued software maintenance                      | 2,006                                  | 1,439  |
| Accrued payroll and related expenses              | 4,144                                  | 5,799  |
| Accrued professional service fee                  | 1,025                                  | 1,388  |
| Warrant obligation                                | -                                      | 1,255  |
| Accrued warranty costs                            | 197                                    | 121    |
| Accrued insurance, welfare expenses, etc.         | 7,077                                  | 8,186  |
|   | \$ 23,725                              | 30,066 |

The movement in accrued warranty costs for the years ended December 31, 2011, 2012 and 2013 is as follows:

| Period    | Balance at<br>beginning<br>of year<br>(in thousands) | Additions<br>(reversal)<br>charged to<br>expense | Amounts<br>utilized | Balance at<br>end of<br>year |
|-----------|--|--|---------------------|------------------------------|
| Year 2011 | \$ 679   | (321)  | (280)               | 78                           |
| Year 2012 | \$ 78  | 856  | (737)               | 197                          |
| Year 2013 | \$ 197   | 364  | (440)               | 121                          |

**Note 12.****Short-Term Debt**

In 2012 and 2013, short-term debt consisted of bank loans with interest rates per annum that ranged from 0.42% to 0.57% and 0.42% to 0.45%, respectively, and cash totaling \$73,000 thousand and \$105,500 thousand are pledged as collateral, respectively.

As of December 31, 2013, unused credit lines amounted to \$204,660 thousand, which expire between April 2014 and December 2014. Among which, \$6,710 thousand expired in April 2014.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 13.****Government Grants**

The Company entered into several contracts with Institute for Information Industry (III) during 2011, 2012 and 2013 primarily for the development of certain new leading products or technologies. Details of these contracts are summarized below:

| Authority | Total Grant<br>(in thousands) | Execution Period              | Product Description                      |
|-----------|-------------------------------|-------------------------------|--|
| III       | NT\$ 4,340 (US\$140)          | January 2010 to November 2011 | Himax Headquarter Excellent Program (II) |
| III       | 18,700 (US\$582)              | January 2010 to December 2011 | LCOS Projector Development Program       |
| III       | 23,220 (US\$770)              | June 2011 to February 2013    | CMOS Development Program                 |
| III       | 72,000 (US\$2,416)            | January 2013 to June 2014     | MEMS Development Program                 |
| III       | 27,500 (US\$923)              | April 2013 to December 2014   | Wafer-Level Lens Development Program     |

Government grants recognized by the Company as a reduction of research and development expense and general and administrative expense in the consolidated statements of income in 2011, 2012 and 2013 were \$688 thousand, \$216 thousand and \$2,011 thousand, respectively.

**Note 14.****Retirement Plan**

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

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

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

Beginning July 1, 2005, pursuant to the newly effective ROC Labor Pension Act, the Company is required to make a monthly contribution for full-time employees in the ROC that elected to participate in the Defined Contribution Plan at a rate no less than 6% of the employee's monthly wages to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance. Expense recognized in 2011, 2012 and 2013, based on the contribution called for was \$1,801 thousand, \$1,844 thousand and \$2,091 thousand, respectively.

Substantially all participants in the Defined Benefits Plan had elected to participate in the Defined Contribution Plan. The transfer of participants to the Defined Contribution Plan did not have a material effect on the Company's financial position or results of operations. Participants' accumulated benefits under the Defined Benefit Plan are not impacted by their election to change the plans and their seniority remains regulated by ROC Labor Standard Law, such as the retirement criteria and the amount payable. The Company is required to make contribution for the Defined Benefit Plan until it is fully funded. Pursuant to relevant regulatory requirements, the Company expects to make a cash contribution of \$125 thousand to its pension fund maintained with the Bank of Taiwan and \$2,436 thousand to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance in 2014.

The Company established a defined contribution plan in the United States that qualifies under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet the service requirement. The Company's contribution to the plan may be made at the discretion of the board of directors. As now, no contributions have been made by the Company to the plan.

All PRC employees participate in employee social security plans, including pension and other welfare benefits, which are organized and administered by governmental authorities. We have no other substantial commitments to employees. The premiums and welfare benefit contributions that should be borne by our Company are calculated in accordance with relevant PRC regulations, and are paid to the labor and social welfare authorities. Expenses recognized based on this plan were \$517 thousand, \$606 thousand, and \$778 thousand for the years ended December 31, 2011, 2012 and 2013, respectively.

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

|   | December 31,<br>2012<br>(in thousands) | 2013  |
|---|--|-------|
| Change in projected benefit obligation: |  |       |
| Benefit obligation at beginning of year | \$ 2,425                               | 2,334 |
| Service cost                            | -                                      | -     |
| Interest cost                           | 50                                     | 39    |
| Actuarial loss (gain)                   | (141)                                  | 510   |
| Benefit obligation at end of year       | 2,334                                  | 2,883 |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|   | December 31,<br>2012<br>(in thousands) | 2013  |
|---|--|-------|
| Change in plan assets:                              |  |       |
| Fair value at beginning of year                     | 2,305                                  | 2,549 |
| Actual return on plan assets                        | 24                                     | 33    |
| Employer contribution                               | 220                                    | 97    |
| Fair value at end of year                           | 2,549                                  | 2,679 |
| Funded status                                       | \$ 215                                 | (204) |
| Amounts recognized in the balance sheet consist of: |  |       |
| Prepaid pension costs                               | \$ 457                                 | 102   |
| Accrued pension liabilities                         | (242)                                  | (306) |
| Net amount recognized                               | \$ 215                                 | (204) |

Amounts recognized in accumulated other comprehensive income was net actuarial loss of \$1,241 thousand, \$1,008 thousand and \$1,409 thousand at December 31, 2011, 2012 and 2013, respectively.

The accumulated benefit obligation for the Defined Benefit Plan was \$887 thousand and \$883 thousand at December 31, 2012 and 2013, respectively. As of December 31, 2012 and 2013, no employee was eligible for retirement or was required to retire.

For the years ended December 31, 2011, 2012 and 2013, the net periodic pension cost consisted of the following:

|                                | Year Ended December 31,<br>2011<br>(in thousands) | 2012 | 2013 |
|--------------------------------|---|------|------|
| Service cost                   | \$ -  | -    | -    |
| Interest cost                  | 33  | 50   | 39   |
| Expected return on plan assets | (44)  | (48) | (44) |
| Net amortization               | 36  | 69   | 58   |
| Net periodic pension cost      | \$ 25   | 71   | 53   |

The net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2014 is \$75 thousand.

At December 31, 2012 and 2013, the weighted-average assumptions used in computing the benefit obligation are as follows:

|   | December 31,<br>2012 |   | 2013 |   |
|---|----------------------|---|------|---|
| Discount rate                           | 1.75                 | % | 2.25 | % |
| Rate of increase in compensation levels | 4.00                 | % | 5.00 | % |

F-35

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

For the years ended December 31, 2011, 2012 and 2013, the weighted average assumptions used in computing net periodic benefit cost are as follows:

|   | Year Ended December 31, |      |      |   | 2013 |   |
|---|-------------------------|------|------|---|------|---|
|   | 2011                    | 2012 |      |   |      |   |
|   | Whole                   |      |      |   |      |   |
| Discount rate                                       | 2.00                    | %    | 1.75 | % | 2.25 | % |
| Rate of increase in compensation levels             | 5.00                    | %    | 4.00 | % | 5.00 | % |
| Expected long-term rate of return on pension assets | 2.00                    | %    | 1.75 | % | 2.00 | % |

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

The benefits expected to be paid from the defined benefit pension plan is \$13 thousand in 2016, \$38 thousand in 2017, \$29 thousand in 2018 and \$323 thousand from 2019 to 2023, and no benefits payments to be paid during the years from 2014 to 2015.

**Note 15.****Share-Based Compensation**

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

|   | Year Ended December 31, |       | 2013  |
|---|-------------------------|-------|-------|
|   | 2011                    | 2012  |       |
|   | (in thousands)          |       |       |
| Cost of revenues                        | \$ 124                  | 176   | 235   |
| Research and development                | 5,062                   | 5,625 | 6,705 |
| General and administrative              | 872                     | 1,191 | 1,308 |
| Sales and marketing                     | 1,005                   | 1,230 | 1,425 |
| Total compensation recognized in income | \$ 7,063                | 8,222 | 9,673 |
| Income tax benefit                      | \$ 818                  | 1,886 | 2,170 |

(a)

**Long-term Incentive Plan**

On October 25, 2005 and September 7, 2011, the Company's shareholders approved a long-term incentive plan, respectively. Both plans permit the grants of options or RSUs to the Company's employees, directors and service providers where each unit of RSU represents two ordinary shares of the Company. The 2005 plan was terminated in October 2010.

F-36

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

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

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

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

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

On September 26, 2012, the Company's compensation committee made grants of 5,522,279 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 58.36% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$6,286 thousand, a subsequent 13.88% will vest on each of September 30, 2013, 2014 and 2015 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 26, 2013, the Company's compensation committee made grants of 867,771 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 88.90% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$7,833 thousand, a subsequent 3.70% will vest on each of September 30, 2014, 2015 and 2016 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The amount of compensation expense from the long-term incentive plan was determined based on the estimated fair value and the market price of ADS (one ADS represents two ordinary shares) underlying the RSUs granted on the date of grant, which were \$2.95 per ADS, \$3.25 per ADS, \$2.47 per ADS, \$1.1 per ADS, \$1.95 per ADS and \$10.15 per ADS on September 29, 2008, September 28, 2009, September 28, 2010, September 28, 2011, September 26, 2012 and September 26, 2013, respectively.

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

|                              | Number of<br>Underlying<br>Shares for RSUs | Weighted<br>Average Grant<br>Date Fair Value |
|------------------------------|--|--|
| Balance at January 1, 2011   | 2,688,382                                  | \$ 2.87                                      |
| Granted                      | 2,727,278                                  | 1.10   |
| Vested                       | (4,096,965)                                | 1.74   |
| Forfeited                    | (146,307)                                  | 2.87   |
| Balance at December 31, 2011 | 1,172,388                                  | 2.68   |
| Granted                      | 5,522,279                                  | 1.95   |
| Vested                       | (3,879,959)                                | 2.10   |
| Forfeited                    | (177,253)                                  | 2.81   |
| Balance at December 31, 2012 | 2,637,455                                  | 1.99   |
| Granted                      | 867,771                                    | 10.15  |
| Vested                       | (1,719,273)                                | 5.70   |
| Forfeited                    | (274,730)                                  | 1.92   |
| Balance at December 31, 2013 | 1,511,223                                  | 2.47   |

As of December 31, 2013, the total compensation cost related to the unvested RSUs not yet recognized was \$2,711 thousand. The weighted-average period over which it is expected to be recognized is 1.81 years.

As of December 31, 2013, all 1,511,223 unvested RSUs were outstanding under 2011 plan.

In 2011, the Company settled RSUs releases with newly issued shares of ordinary shares were 2,971,212 shares. In 2012, the Company settled RSUs release with shares buyback were 1,312,844 shares. In 2013, the Company settled RSUs release with shares buyback were 1,899,910 shares.

The allocation of compensation expenses and related tax effects from the RSUs granted to employees under the long-term incentive plan are summarized as follows:

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|                              | Year Ended December 31, |       |       |
|------------------------------|-------------------------|-------|-------|
|                              | 2011                    | 2012  | 2013  |
|                              | (in thousands)          |       |       |
| Cost of revenues             | \$ 124                  | 176   | 235   |
| Research and development     | 4,790                   | 5,605 | 6,686 |
| General and administrative   | 863                     | 1,184 | 1,307 |
| Sales and marketing          | 996                     | 1,230 | 1,425 |
| Total compensation from RSUs | \$ 6,773                | 8,195 | 9,653 |
| Income tax benefit           | \$ 818                  | 1,886 | 2,170 |

**(b) Non-vested Shares Issued to Employees**

From September 2007 to December 2010, Himax Imaging Inc. (“Imaging Cayman”, a consolidated subsidiary) granted non-vested shares of its ordinary shares to certain employees for their future service, and the employees must pay \$0.15 or \$0.3 (employees hired after March 1, 2009) per share. The shares vest over four years after the grant date. If employees leave Himax Imaging before completing the four year service period, they would sell these shares back to Himax Imaging at their original purchase price. On January 1, 2011, 5,346,777 unvested ordinary shares of Imaging Cayman were cancelled in exchange for 1,939,490 unvested ordinary shares of Himax Imaging Ltd. (“Imaging Taiwan”, a consolidated subsidiary) by per ordinary share of Imaging Cayman in exchange for 0.36274 ordinary share of Imaging Taiwan. The plan will continue to vest according to the original vesting schedule.

During 2011, Imaging Cayman granted non-vested shares of Imaging Taiwan’s ordinary shares to certain employees for their future service, and the employees must pay NT\$30 (\$1.03) per share. The shares vest over one year or three years after the grant date. If employees leave Himax Imaging before completing the service period, Himax Imaging has the option to buy the vested shares back at employees’ original purchase price. In 2011, 2012 and 2013, the Company recognized compensation expenses of \$71 thousand, \$14 thousand and \$9 thousand, respectively, which were determined based on the estimated fair value of the ordinary shares of Imaging Taiwan on the date of grant, which was NT\$21 (US\$0.72) per share. Such compensation expense was recorded as research and development expenses, general and administrative expense and sales and marketing expense in the consolidated statements of income with a corresponding increase to noncontrolling interests in the consolidated balance sheets. The fair value of ordinary shares was determined based on a third-party valuation conducted by an independent third-party appraiser.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

|                              | Number of<br>Shares | Weighted<br>Average Grant<br>Date Fair Value |
|------------------------------|---------------------|--|
| Balance at January 1, 2011   | 1,939,490           | \$ 0.72                                      |
| Granted                      | 567,689             | 0.72   |
| Vested                       | (601,129)           | 0.72   |
| Forfeited                    | (28,971)            | 0.72   |
| Balance at December 31, 2011 | 1,877,079           | 0.72   |
| Vested                       | (699,967)           | 0.72   |
| Forfeited                    | (821,365)           | 0.72   |
| Balance at December 31, 2012 | 355,747             | 0.72   |
| Vested                       | (181,448)           | 0.72   |
| Forfeited                    | (143,160)           | 0.72   |
| Balance at December 31, 2013 | 31,139              | 0.72   |

As of December 31, 2013, the total compensation cost related to this award not yet recognized was \$0.3 thousand. The weighted-average period over which it is expected to be recognized is 0.17 years.

(c)

**Employee stock options**

On December 20, 2007 and October 20, 2009, board of directors of Himax Media Solutions approved two plans, the 2007 plan and the 2009 plan, respectively, to grant stock options to certain employees. These two plans

(i) authorize grants to purchase up to 6,800,000 shares and 2,300,000 shares, respectively, of Himax Media Solutions' authorized but unissued ordinary shares. The exercise price was NT\$15 (US\$0.464) and NT\$10 (US\$0.311), respectively.

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

All options under these plans have four-year vesting period, 50%, 25% and 25% of each grant will be vested subsequent to the second, third and fourth anniversary of the grant date, respectively. The Company recognized compensation expenses of \$219 thousand, \$13 thousand and \$11 thousand in 2011, 2012 and 2013, respectively. Such compensation expense was recorded as sales and marketing expense, general and administrative expense and research and development expenses in the consolidated statements of income. There was no income tax benefit realized in the consolidated statements of income for employee stock options for the years ended December 31, 2011, 2012 and 2013.



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

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

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

|                                  | Number of shares | Weighted average exercise price | Weighted average remaining contractual term |
|----------------------------------|------------------|---------------------------------|---|
| Balance at January 1, 2011       | 1,443,875        | \$ 1.660                        | 2.452                                       |
| Granted                          | 444,500          | 1.834                           |   |
| Exercised                        | -                | -                               |   |
| Forfeited                        | (346,813)        | 1.717                           |   |
| Balance at December 31, 2011     | 1,541,562        | 1.696                           | 1.803                                       |
| Granted                          | 9,750            | 1.856                           |   |
| Exercised                        | -                | -                               |   |
| Forfeited                        | (372,187)        | 1.721                           |   |
| Balance at December 31, 2012     | 1,179,125        | 1.690                           | 0.803                                       |
| Granted                          | -                | -                               |   |
| Exercised                        | -                | -                               |   |
| Forfeited                        | (890,625)        | 1.834                           |   |
| Balance at December 31, 2013     | 288,500          | 1.244                           | -   |
| Exercisable at December 31, 2013 | 288,500          | 1.244                           |   |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

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

(ii) On July 1, 2012 and July 1, 2013, board of directors of Imaging Cayman approved a plan to grant stock options, the 2012 plan and the 2013 plan, respectively, to certain employees. These two plans authorize grants to purchase up to 2,000,000 shares and 430,000 shares, respectively, of Imaging Taiwan' issued ordinary shares held by Imaging Cayman. The exercise price was NT\$30 (US\$1.004) and NT\$30 (US\$1), respectively.

The 2012 plan has four years contractual life and three years vesting period. Based on the vesting schedule, 50% of the options vest one and half years after the date of grant and 50% of the options vest three years after the date of grant. The 2013 plan has three years contractual life and two years vesting period. Based on the vesting schedule, 50% of the options vest half years after the date of grant and 50% of the options vest two years after the date of grant. Because the exercise price of the options are higher than the estimated fair value of Imaging Taiwan at the date of grant, the calculated value of each option award estimated using the Black-Scholes option-pricing model was nil.

The calculated value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Imaging Cayman uses the simplified method to estimate the expected term of the options as it does not have sufficient historical share option exercise experience and the exercise data relating to employees of other companies is not easily obtainable. Since Imaging Taiwan' shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rates for the expected term of the options are based on the interest rate of 3 years ROC central government bond at the time of grant.

|                         | 2012  |   | 2013  |   |
|-------------------------|-------|---|-------|---|
| Valuation assumptions:  |       |   |       |   |
| Expected dividend yield | 0     | % | 0     | % |
| Expected volatility     | 43.29 | % | 39.50 | % |
| Expected term (years)   | 3.125 |   | 2.125 |   |
| Risk-free interest rate | 0.87  | % | 0.85  | % |

Stock option activity during the periods indicated is as follows:

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|                                  | Number<br>of shares | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>term |
|----------------------------------|---------------------|--|---|
| Balance at January 1, 2012       | -                   | \$ -                                     |   |
| Granted                          | 1,115,000           | 1.004                                    |   |
| Exercised                        | -                   | -  |   |
| Forfeited                        | (65,000)            | 1.004                                    |   |
| Balance at December 31, 2012     | 1,050,000           | 1.004                                    | 3.5   |
| Granted                          | 425,000             | 1.000                                    |   |
| Exercised                        | -                   | -  |   |
| Forfeited                        | (75,000)            | 1.004                                    |   |
| Balance at December 31, 2013     | 1,400,000           | 1.003                                    | 2.5   |
| Exercisable at December 31, 2013 | 700,000             | 1.003                                    |   |

**Note 16.****Equity**

(a)

Share capital

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

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

The Company repurchased \$13.4 million or 9,488,656 ADSs in the open market at an average price of US\$1.41 per ADS as of December 31, 2013. Among which, 7,825,032 ADSs were held by the Company as of December 31, 2013.

(b)

Earnings distribution

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

special reserve.

F-43



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The accumulated legal and special reserve provided by Himax Taiwan as of December 31, 2012 and 2013 amounting to \$50,750 thousand and \$53,786 thousand, respectively.

**Note 17.****Comprehensive Income**

The components of accumulated other comprehensive loss, net of tax, are as follows:

|  | Foreign<br>currency<br>items | Unrealized<br>gains/<br>(losses) on<br>securities | Defined<br>benefit<br>pension<br>plan | Accumulated<br>other<br>comprehensive<br>income (loss) |
|--|------------------------------|---|---------------------------------------|--|
| Beginning balance, January 1, 2012   | \$ 738                       | 616   | (1,188)                               | 166  |
| Other comprehensive income (loss) before<br>reclassifications                                  | 52                           | 59  | 234                                   | 345  |
| Reclassification adjustments for losses (gains)<br>reclassified into income, net of tax of nil | -                            | (648)   | -                                     | (648)  |
| Ending balance, December 31, 2012  | \$ 790                       | 27  | (954)                                 | (137)  |
| Beginning balance, January 1, 2013   | \$ 790                       | 27  | (954)                                 | (137)  |
| Other comprehensive income (loss) before<br>reclassifications                                  | 161                          | (12)  | (432)                                 | (283)  |
| Reclassification adjustments for losses (gains)<br>reclassified into income, net of tax of nil | -                            | 8   | -                                     | 8  |
| Ending balance, December 31, 2013  | \$ 951                       | 23  | (1,386)                               | (412)  |

Reclassification adjustments for losses (gains) reclassified into income were presented in “Gains (losses) on sale of marketable securities, net” in the consolidated statements of income.

**Note 18.****Income Taxes**

Substantially all of the Company’s earnings from continuing operations before income taxes is derived from the operations in the ROC and, therefore, substantially all of the Company’s income tax expense (benefit) attributable to income from continuing operations is incurred in the ROC. Other foreign subsidiary companies calculated income tax in accordance with local tax law and regulations.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

The statutory tax rate applicable to the subsidiaries located in the Republic of China is 17% in 2011, 2012 and 2013. An additional 10% corporate income tax is assessed on undistributed income for the entities in the ROC, but only to the extent such income is not distributed or set aside as legal reserve before the end of the following year. The 10% surtax is recorded in the period the income is earned, and the reduction in the surtax liability is recognized in the period the distribution to shareholders or the setting aside of legal reserve is finalized in the following year.

In accordance with the ROC Statute for Upgrading Industries, Himax Taiwan's capital increases in September 2004 and June 2009 as well as Himax Semiconductor's newly incorporated investment in August 2004 and October 2009 related to the manufacturing of a newly designed TFT-LCD driver and were approved by the government authorities for tax exemptions as a result of investing in a newly emerging, important and strategic industry. Himax Taiwan's capital increase in November 2009 related to the electronic parts and components manufacturing was approved by the government authorities for tax exemptions. The incremental income derived from selling the above new product is tax-exempt for a period of five years.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The Company is entitled to the following tax exemptions:

| <b>Date of investment</b> | <b>Tax exemption period</b>       |
|---------------------------|-----------------------------------|
| Himax Taiwan:             |                                   |
| September 20, 2004        | January 1, 2008-December 31, 2012 |
| June 5, 2009              | January 1, 2014-December 31, 2018 |
| November 12, 2009         | January 1, 2014-December 31, 2018 |
| Himax Semiconductor:      |                                   |
| August 26, 2004           | January 1, 2009-December 31, 2013 |
| October 9, 2009           | January 1, 2014-December 31, 2018 |

The income tax exemption is \$ 836 thousand, \$2,921 thousand and \$2,392 thousand and the increase to basic and diluted earnings per ordinary share effect resulting from the income tax exemption is a nil, \$0.01 and \$0.01 for the years ended December 31, 2011, 2012 and 2013, respectively.

Income (loss) before income taxes for domestic and foreign entities is as follows:

|                   | Year Ended December 31, |         |         |
|-------------------|-------------------------|---------|---------|
|                   | 2011                    | 2012    | 2013    |
|                   | (in thousands)          |         |         |
| Taiwan operations | \$ 22,370               | 73,461  | 77,130  |
| Cayman operations | (7,038)                 | (7,395) | (57)    |
| US operations     | 151                     | (1,597) | (2,251) |
| China operations  | 1,293                   | 1,388   | 506     |
| Korea operations  | 32                      | 29      | 55      |
| Japan operations  | -                       | -       | 17      |
|                   | \$ 16,808               | 65,886  | 75,400  |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The components of the income tax expense (benefit) attributable to income from continuing operations before taxes for the years ended December 31, 2011, 2012 and 2013 consist of the following:

|  | Year Ended December 31,<br>2011 | 2012   | 2013   |
|--|---------------------------------|--------|--------|
|  | (in thousands)                  |        |        |
| Current:   |                                 |        |        |
| Taiwan operations based on statutory tax rate of 17%   | \$ (2,842)                      | 755    | 5,126  |
| Taiwan operations 10% of surtax                        | 3,424                           | 5,277  | 6,497  |
| Cayman operations                                      | -                               | 1      | -      |
| US operations  | 104                             | 162    | 156    |
| China operations                                       | 120                             | 699    | 270    |
| Korea operations                                       | 5                               | 3      | 11     |
| Japan operations                                       | -                               | -      | 7      |
| Total current income tax expense                       | 811                             | 6,897  | 12,067 |
| Deferred:  |                                 |        |        |
| Taiwan operations - based on statutory tax rate of 17% | 6,468                           | 9,789  | 6,593  |
| Taiwan operations 10% of surtax                        | (143)                           | (29)   | 853    |
| US operations  | 5                               | (998)  | 4      |
| China operations                                       | 162                             | 89     | (36)   |
| Korea operations                                       | (2)                             | -      | (5)    |
| Total deferred income tax expense                      | 6,490                           | 8,851  | 7,409  |
| Income tax expense                                     | \$ 7,301                        | 15,748 | 19,476 |

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

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 2011, 2012 and 2013 are as follows:

|  | Year Ended December 31,<br>2011 | 2012    | 2013  |
|--|---------------------------------|---------|-------|
|  | (in thousands)                  |         |       |
| Deferred income tax expense, exclusive of the effects of other components listed below           | \$ 1,085                        | 9,981   | 7,409 |
| Adjustments to deferred tax assets and liabilities for changes in enacted tax laws and rates     | (1)                             | -       | -     |
| Tax benefits of operating loss carryforwards   | -                               | (1,130) | -     |
| Increase in the beginning-of-the-year balance of the valuation allowance for deferred tax assets | 5,406                           | -       | -     |
|  | \$ 6,490                        | 8,851   | 7,409 |

F-47

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The applicable combined tax rate was 23.85% in 2011, 2012 and 2013, consisting of an aggregate calculation of the 17% regular income tax and the 10% undistributed earning surtax.

The differences between expected income tax expense, computed based on the ROC statutory income tax rate of 17% of earnings before income taxes and the actual income tax expense as reported in the consolidated statements of income for the years ended December 31, 2011, 2012 and 2013 are summarized as follows:

|  | Year Ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2011                    | 2012    | 2013    |
|  | (in thousands)          |         |         |
| Expected income tax expense  | \$ 2,857                | 11,201  | 12,818  |
| Tax on undistributed retained earnings   | 1,718                   | 3,341   | 4,700   |
| Tax-exempted income  | (836)                   | (2,921) | (2,392) |
| Tax benefit resulting from setting aside legal reserve from prior year's income                                    | (164)                   | (571)   | (558)   |
| Realized tax losses on investments in subsidiaries due to capital reduction to offset the accumulated deficit      | (1,821)                 | (6,157) | -       |
| Increase in investment tax credits   | (3,533)                 | (1,210) | -       |
| Expired investment tax credits   | 1,841                   | 5,302   | -       |
| Increase in deferred tax asset valuation allowance   | 8,583                   | 8,219   | 3,146   |
| Non-deductible share-based compensation expenses   | 589                     | 53      | 2       |
| Changes in unrecognized tax benefits related to prior year tax positions, net of its impact to tax-exempted income | (6,759)                 | 658     | (215)   |
| Tax effect resulting from foreign currency matters   | 3,160                   | (3,607) | 2,278   |
| Foreign tax rate differential  | 1,350                   | 1,415   | 612     |
| Variance from audits, amendments and examinations of prior years' income tax filings                               | 476                     | 40      | (1,376) |
| Others   | (160)                   | (15)    | 461     |
| Actual income tax expense  | \$ 7,301                | 15,748  | 19,476  |

The total income tax expense for the years ended December 31, 2011, 2012 and 2013 was allocated as follows:

|   | Year Ended December 31, |        |         |
|---|-------------------------|--------|---------|
|   | 2011                    | 2012   | 2013    |
|   | (in thousands)          |        |         |
| Income from continuing operations   | \$ 7,301                | 15,748 | 19,476  |
| Other comprehensive gain (loss)   | (125)                   | 8      | (99)    |
| Excess tax benefits allocated to additional paid-in capital from share-based compensation | -                       | -      | (1,271) |

|                          |    |       |        |        |
|--------------------------|----|-------|--------|--------|
| Total income tax expense | \$ | 7,176 | 15,756 | 18,106 |
|--------------------------|----|-------|--------|--------|

F-48

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

As of December 31, 2012 and 2013, the components of deferred income tax assets (liabilities) were as follows:

|   | December 31,<br>2012 | 2013     |
|---|----------------------|----------|
|   | (in thousands)       |          |
| Deferred tax assets:                                |                      |          |
| Inventory   | \$ 5,538             | 6,509    |
| Allowance for doubtful accounts                     | 2,270                | 2,255    |
| Unused investment tax credits                       | 22,835               | 6,017    |
| Unused loss carryforward-regular tax                | 26,388               | 28,098   |
| Unused loss carryforward-undistributed earnings tax | 8,654                | 10,229   |
| Other   | 1,992                | 1,845    |
| Total gross deferred tax assets                     | 67,677               | 54,953   |
| Less: valuation allowance                           | (44,995)             | (38,347) |
| Net deferred tax assets                             | 22,682               | 16,606   |
| Deferred tax liabilities:                           |                      |          |
| Excess tax benefit for share-based compensation     | -                    | (2,032)  |
| Prepaid pension cost                                | (401)                | (396)    |
| Acquired intangible assets                          | (3,015)              | (2,180)  |
| Other   | (78)                 | (119)    |
| Total gross deferred tax liabilities                | (3,494)              | (4,727)  |
| Net deferred tax assets                             | \$ 19,188            | 11,879   |

As of December 31, 2013, the Company has not provided for income taxes on the undistributed earnings of approximately \$582,607 thousand of its foreign subsidiaries since the Company has specific plans to reinvest these earnings indefinitely. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings. This amount becomes taxable when the ultimate parent company, Himax Technologies, Inc., executes other investments, share buybacks or shareholder dividends to be funded by cash distribution by its foreign subsidiaries. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings because of the complexities of the hypothetical calculation.

The activity in the valuation allowance for deferred tax assets for the years ended December 31, 2011, 2012 and 2013 follows:

| Period    | Balance at<br>beginning<br>of year | Additions-<br>Charges to<br>earnings | Deductions-<br>Charges to<br>earnings | Expiration<br>and<br>Forfeitures | Others<br>(Note) | Balance at<br>end of year |
|-----------|------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|------------------|---------------------------|
| Year 2011 | \$ 53,437                          | 8,964                                | (381)                                 | (15,414)                         | (1,781)          | 44,825                    |
| Year 2012 | \$ 44,825                          | 9,993                                | (1,774)                               | (11,655)                         | 3,606            | 44,995                    |
| Year 2013 | \$ 44,995                          | 4,698                                | (1,552)                               | (10,183)                         | 389              | 38,347                    |



F-49

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

Note: Others represent the effect resulting from exchange rates and changes in consolidated entities.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and operating loss and tax credit carryforwards are available to be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deferred tax assets, net of the valuation allowance at December 31, 2013. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Each entity within the Company files separate standalone income tax return. Except for Himax Taiwan, Himax Semiconductor, Himax Korea, Himax Japan, Himax Technologies (Suzhou) Co., Ltd., Himax Technologies (Shenzhen) Co., Ltd., and Himax Imaging Corp., most of other subsidiaries of the Company have generated tax losses since their inception; therefore, a valuation allowance of \$39,195 thousand and \$38,347 thousand as of December 31, 2012 and 2013, respectively, was provided to reduce their deferred tax assets (consisting primarily of operating loss carryforward and unused investment tax credits) to zero because management believes it is unlikely that these tax benefits will be realized.

In addition, a valuation allowance of \$5,800 thousands and nil as of December 31, 2012 and 2013, respectively, was provided to reduce Himax Taiwan's deferred tax assets related to unused investment tax credits.

Under ROC Income Tax Acts, the tax loss carryforward in the preceding ten years would be deducted from tax income for Taiwan operations. The statutory losses would be deducted for undistributed earnings tax and were not subject to expiration for Taiwan operations.

As of December 31, 2013, the Company's unused operating loss carryforward for regular tax were as follows:

|                      | Deductible amount<br>(in thousands) | Tax effect | Expiration year |
|----------------------|-------------------------------------|------------|-----------------|
| Taiwan operations    | \$ 146,638                          | \$ 24,928  | 2014~2023       |
| Hong Kong operations | 1,808                               | 298        | Indefinitely    |
| US operations        | 7,211                               | 2,872      | 2024~2033       |
|                      |                                     | \$ 28,098  |                 |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

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

As of December 31, 2013, all of the Company's unused investment tax credits were as follows:

|                   | Tax effect<br>(in thousands) | Expiration year |
|-------------------|------------------------------|-----------------|
| Taiwan operations | \$ 4,768                     | 2014~2016       |
| US operations     | 1,249                        | 2020~2033       |
|                   | \$ 6,017                     |                 |

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

|  | For the year ended December 31, |      |       |
|--|---------------------------------|------|-------|
|  | 2011                            | 2012 | 2013  |
|  | (in thousands)                  |      |       |
| Balance at beginning of year                 | \$ 6,892                        | 128  | 791   |
| Increase related to prior year tax positions | -                               | 658  | -     |
| Decrease related to prior year tax positions | (6,759)                         | -    | (215) |
| Settlements                                  | -                               | -    | (93)  |
| Effect of exchange rate change               | (5)                             | 5    | -     |
| Balance at end of year                       | \$ 128                          | 791  | 483   |

Included in the balance of total unrecognized tax benefits at December 31, 2012 and 2013, are potential benefits of \$791 thousand and \$483 thousand, respectively that if recognized, would reduce the Company's effective tax rate. No interest and penalties related to unrecognized tax benefits were recorded by the Company for the years ended December 31, 2011, 2012 and 2013. The Company's major taxing jurisdiction is Taiwan. All Taiwan subsidiaries' income tax returns have been examined and assessed by the ROC tax authorities through 2011. The income tax returns

of 2012 and later for these subsidiaries are open to examination by the ROC tax authorities. Taiwanese entities are customarily examined by the tax authorities and it is possible that a future examination will result in a positive or negative adjustment to the Company's unrecognized tax benefits within the next 12 months; however, management is unable to estimate a range of the tax benefits or detriment as of December 31, 2013.

F-51

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 19. Fair Value Measurements**

The following table presents the Company's financial assets and liabilities that are measured at fair value on a recurring basis which were comprised of the following types of instruments at December 31, 2012 and 2013:

|  | Fair Value Measurements at<br>December 31, 2012 Using |                           |         |
|--|---|---------------------------|---------|
|  | Level 1   | Level 2<br>(in thousands) | Level 3 |
| Assets:  |   |                           |         |
| Cash and cash equivalents:                                       |   |                           |         |
| Time deposits with original maturities less than three months    | \$ 45,000   | -                         | -       |
| Marketable securities available-for-sale:                        |   |                           |         |
| Time deposit with original maturities more than three months     | -   | 172                       | -       |
| Restricted marketable securities:                                |   |                           |         |
| Time deposits with original maturities of more than three months | -   | 1,273                     | -       |
| Total  | \$ 45,000   | 1,445                     | -       |
| Liabilities:   |   |                           |         |
| Short-term debt  | \$ -  | 73,000                    | -       |
| Total  | \$ -  | 73,000                    | -       |
|  | Fair Value Measurements at<br>December 31, 2013 Using |                           |         |
|  | Level 1   | Level 2<br>(in thousands) | Level 3 |
| Assets:  |   |                           |         |
| Cash and cash equivalents:                                       |   |                           |         |
| Time deposits with original maturities less than three months    | \$ 35,684   | -                         | -       |
| Marketable securities available-for-sale:                        |   |                           |         |
| Time deposit with original maturities more than three months     | -   | 788                       | -       |
| Restricted marketable securities:                                |   |                           |         |
| Time deposits with original maturities of more than three months | -   | 3,034                     | -       |
| Total  | \$ 35,684   | 3,822                     | -       |
| Liabilities:   |   |                           |         |
| Short-term debt  | \$ -  | 105,500                   | -       |
| Other current liabilities:                                       |   |                           |         |
| Warrant obligation   | -   | -                         | 1,255   |
| Total  | \$ -  | 105,500                   | 1,255   |

F-52

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The following table presents fair value measurements of assets that are measured at fair value on a nonrecurring basis at December 31, 2012 and the associated losses recognized in 2012 (nil in 2013):

| Fair Value Measurements at<br>reporting Date Using                                  |  |         |         |         | For the<br>Year<br>Ended<br>December<br>31, 2012<br>Impairment<br>loss |
|---|--|---------|---------|---------|--|
|   | December 31,<br>2012<br>(in thousands) | Level 1 | Level 2 | Level 3 |  |
| Assets:   |  |         |         |         |  |
| Investments in Non-marketable<br>Equity Securities- eTurbo Touch<br>Technology Inc. | \$ 477                                 | -       | -       | 477     | 238  |

The Company reviews the carrying values of financial assets carried at cost when impairment indicators are present. For such financial assets that do not have a quoted market price, management of the Company reviews the current operating performance of the investee based on evaluation of the latest available financial statements, as well as changes in the industry and market prospects based on publicly available information. The impairment charge recognized in 2012 for the investment in eTurbo Touch Technology Inc. was determined based on the difference between the Company's carrying value and the proportionate equity interest in the net book value of investee at year end (which was management's best estimate of the amount to be realized from this investment).

Non-financial assets such as goodwill, intangible assets, and property, plant, and equipment are measured at fair value only when an impairment loss is recognized. No such impairments were recognized in 2011, 2012 and 2013. As stated in Note 2 (h) "Summary of Significant Accounting Policy"- "Goodwill", for Driver IC reporting unit in 2011 and 2012, the discounted cash flow (DCF) method is used by management in applying the income approach to determine the fair value of each of the Company's reporting units. Significant assumptions inherent in the valuation method for goodwill are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

The Company performed the fair value measurement, which is categorized in Level 3 as part of the step 1 of the goodwill impairment test, for the Driver IC reporting unit. The Company used a discount rate based on the weighted average cost of capital, which were 23.0% and 21.3% for Driver IC reporting unit as of October 31, 2011 and 2012, respectively, and long-term growth rate were (8)% and 1.1% for Driver IC reporting unit as of October 31, 2011 and 2012, respectively.

Management determined that the fair values of Driver IC reporting unit were approximately \$367.4 million and \$571.9 million, which exceeded its carrying amount by 7.6% and 54.3%, at October 31, 2011 and 2012, respectively. Therefore, management concluded that goodwill was not impaired and step 2 of the two-step goodwill impairment test was unnecessary.

There were no transfers between Level 1 and Level 2 of fair value hierarchy and no transfers into or out of Level 3 financial instruments during the year ended December 31, 2012 and 2013.

The following table summarizes changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2013:

|   | Warrant<br>obligation<br>(in thousands) |
|---|---|
| Balance at December 31, 2012  | \$ -                                    |
| Liability for warrant obligation  | 1,415                                   |
| Unrealized gain for change in the fair value of the<br>warrant included in earnings   | (160)                                   |
| Balance at December 31, 2013  | \$ 1,255                                |
| The amount of total gain in 2013 included in earnings<br>attributable to the change in unrealized gain relating<br>to assets and liabilities still held at December<br>31, 2013 | \$ 160                                  |

The Company estimated the fair value for warrant obligation based on an external expert's valuation report. The calculated fair values are estimated by using Binomial Model. The measure is based on significant inputs that are not observable in the market, which are Level 3 inputs. Key valuation assumptions include (a) a risk free rate of 0.58% for the expected terms of 0.81 years is derived from the yield rate of 1 years Zero-Coupon ROC central government bond at the reporting date; (b) an expected volatility of 46.35%, which is based on the average historical volatility of the comparative companies' publicly traded shares.



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

**Note 20. Significant Concentrations**

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

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

The Company depends on two customers for majority of its revenues and the loss of, or a significant reduction in orders would significantly reduce the Company's revenues and adversely impact the Company's operating results. The largest customer, INX and its affiliates, which is a related party to the Company before June 19, 2013, accounted for approximately 40.8%, 34.2% and 22.6%, respectively, of the Company's revenues in 2011, 2012 and 2013, and represented more than 10% of the Company's total accounts receivable balance at December 31, 2012 and 2013. INX and its affiliates accounted for approximately 35.1% and 24.1% of the Company's total accounts receivable balance at December 31, 2012 and 2013, respectively. The other customer, customer A and its affiliates, accounted for approximately 5.7%, 11.7% and 16.9%, respectively, of the Company's revenues in 2011, 2012 and 2013, and represented more than 10% of the Company's total accounts receivable balance at December 31, 2012 and 2013. Customer A and its affiliates accounted for approximately 14.0% and 21.5% of the Company's total accounts receivable balance at December 31, 2012 and 2013, respectively. In addition, the Company had accounts receivable of \$15.2 million outstanding from SVA-NEC as of December 31, 2012 and 2013. Since second half of 2008, SVA-NEC has delayed paying a large portion of its outstanding accounts receivable. Due to the increasing concern about SVA-NEC's financial condition, the Company recognized a provision for doubtful accounts receivable of \$25.3 million for the year ended December 31, 2008. Afterwards, the Company recovered \$8.6 million and \$1.5 million in cash from SVA-NEC in October 2010 and March 2011, respectively. The allowance for doubtful accounts for SVA-NEC's accounts receivable is \$15.2 million as of December 31, 2012 and 2013. The Company has at times agreed to extend the payment terms for certain of its customers. Other customers have also requested extension of payment terms, and the Company may grant such requests for extension in the future. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable, or the extension of payment terms for the Company's customers would adversely affect the Company's cash flow, liquidity and operating results. Management performs ongoing credit evaluations of each customer and adjusts credit policy based upon payment history and the customer's credit worthiness, as determined by the review of their current credit information. See Notes 21 and 22 for additional information.

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

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

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

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

**Note 21.****Related-party Transactions**

(a)

Name and relationship

**Name of related parties****Relationship**

Innolux Corporation (INX)

Principal Owner, not included as related party since June 19, 2013 (1)

Chi Mei Optoelectronics Japan, Co., Ltd.  
(CMO-Japan)

The subsidiary of INX, not included as related party since June 19, 2013 (1)

NEXGEN Mediatech Inc. (NEXGEN)

The Company's Chairman represented on NEXGEN's Board of Directors, not included as related party since July 2011

Chi Lin Technology Co., Ltd. (Chi Lin Tech)

The Company's Chairman represented on Chi Lin Tech's Board of Directors, not included as related party since May 2011

F-56

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

| <b>Name of related parties</b>                    | <b>Relationship</b>  |
|---|--|
| NingBo Chi Mei Electronics Ltd. (CME-NingBo)      | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| NingBo Chi Mei Optoelectronics Ltd. (CMO-NingBo)  | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| NanHai Chi Mei Optoelectronics Ltd. (CMO-NanHai)  | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| Chi Mei Logistics Corp. (CMLC)                    | The subsidiary of INX, not included as related party since July 2011.        |
| NingBo Chi Mei Logistics Corp. (CMLC-NingBo)      | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| Foshan Chi Mei Logistics Ltd. (CMLC-Foshan)       | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| NingBo ChiHsin Electronics Ltd. (Chi Hsin-NingBo) | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| Fulintec Science Engineering Co., Ltd. (Fulintec) | The subsidiary of INX, not included as related party since May 2011          |
| TPO Displays Japan K.K. (TPO Japan)               | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| TPO Displays Hong Kong Limited (TPO Hong Kong)    | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| TPO Displays (Shanghai) Ltd. (TPO Shanghai)       | The subsidiary of INX, not included as related party since June 19, 2013 (1) |
| TPO Displays (Nanjing) Ltd. (TPO-NJ)              | The subsidiary of INX, not included as related party since June 19, 2013 (1) |

(1) On January 1, 2013, Chimei Innolux Corporation, or CMI changed its name to Innolux Corporation, or INX. On June 19, 2013, INX disposed of its entire holding shares of the Company, so that INX ceased to be the Company's shareholder and INX and its affiliates was not a related party to the Company since that day. The related transactions were disclosed as of June 19, 2013.

(b)

Significant transactions with related parties

- (i) Revenues and accounts receivable

F-57

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

Revenues from related parties are summarized as follows:

|                                | Year Ended December 31, |         |        |
|--------------------------------|-------------------------|---------|--------|
|                                | 2011                    | 2012    | 2013   |
| (in thousands)                 |                         |         |        |
| CMO- NingBo                    | \$ 123,888              | 93,664  | 32,045 |
| INX                            | 55,629                  | 56,221  | 26,695 |
| CMO- NanHai                    | 41,241                  | 63,375  | 10,564 |
| CME- NingBo                    | 18,889                  | 21,673  | 6,416  |
| TPO Shanghai                   | 1,077                   | 4,148   | 5,632  |
| Chi Hsin- NingBo               | 16,806                  | 12,637  | 2,534  |
| Others (individually below 5%) | 703                     | 256     | 2,669  |
|                                | \$ 258,233              | 251,974 | 86,555 |

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

|  | Year Ended December 31, |         |        |
|--|-------------------------|---------|--------|
|  | 2011                    | 2012    | 2013   |
| (in thousands)                                       |                         |         |        |
| Display driver for large-size applications           | \$ 210,137              | 190,963 | 54,813 |
| Display driver for consumer electronics applications | 29,316                  | 40,582  | 24,965 |
| Display driver for mobile handsets                   | 14,454                  | 14,748  | 1,863  |
| Others   | 4,249                   | 5,681   | 4,914  |
|  | \$ 258,156              | 251,974 | 86,555 |

The sales prices with INX and its affiliates are comparable to those offered to unrelated third parties.

The related accounts receivable resulting from the above sales as of December 31, 2012 was as follows:

|   | Amount    |
|---|-----------|
| (in thousands)                            |           |
| CMO- NingBo                               | \$ 31,421 |
| INX                                       | 17,319    |
| CMO- NanHai                               | 13,390    |
| CME- NingBo                               | 5,947     |
| TPO Shanghai                              | 2,115     |
| Chi Hsin- NingBo                          | 3,210     |
| Others (individually below 5%)            | 30        |
|   | 73,432    |
| Allowance for sales returns and discounts | (174)     |
|   | \$ 73,258 |

F-58

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

The credit terms granted to INX and its affiliates ranged from 30 days to 120 days, and the credit terms granted to other related parties ranged from 45 days to 90 days. The credit terms offered to unrelated third parties ranged from 15 days to 150 days.

(ii)

Lease

The Company entered into several lease contracts with INX, CMLC, CMLC-NingBo, CMLC-Foshan and CMO-NanHai for leasing office space, facilities and inventory locations. For the years ended December 31, 2011, 2012 and 2013, the related rent and utility expenses resulting from the aforementioned transactions amounted to \$705 thousand, \$828 thousand and \$373 thousand, respectively, and were recorded as cost of revenue and operating expenses in the consolidated statements of income. As of December 31, 2012, the related payables resulting from the aforementioned transactions amounted to \$206 thousand, and were recorded as other accrued expenses in the consolidated balance sheets.

(iii)

Others

In 2011, 2012 and 2013, the Company purchased consumable and miscellaneous items amounting to \$348 thousand, \$31 thousand and \$8 thousand, respectively, from INX, CMO-NanHai, CMLC-NingBo, Chi Lin Tech, NEXGEN, Fulintec and, which were charged to cost of revenues and operating expenses. As of December 31, 2012, the related payables resulting from the aforementioned transactions were nil.

**Note 22.**

**Commitments and Contingencies**

(a) As of December 31, 2012, and 2013 the Company had entered into several contracts for the acquisition of equipment and computer software. Total contract prices amounted to \$15,126 thousand and \$4,418 thousand, respectively. As of December 31, 2012 and 2013, the remaining commitments were \$13,876 thousand and \$3,980 thousand, respectively.

(b) The Company leases certain offices and buildings pursuant to operating lease arrangements with unrelated third parties. The lease arrangement will expire gradually from 2014 to 2024. As of December 31, 2012 and 2013, deposits paid amounted to \$683 thousand and \$995 thousand, respectively, and were recorded as refundable deposit in the consolidated balance sheets.

As of December 31, 2013, future minimum lease payments under noncancelable operating leases are as follows:



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

| Duration                          | Amount<br>(in thousands) |
|-----------------------------------|--------------------------|
| January 1, 2014~December 31, 2014 | \$ 1,724                 |
| January 1, 2015~December 31, 2015 | 745                      |
| January 1, 2016~December 31, 2016 | 603                      |
| January 1, 2017~December 31, 2017 | 472                      |
| January 1, 2018~December 31, 2018 | 265                      |
| January 1, 2019~December 31, 2024 | 967                      |
|                                   | \$ 4,776                 |

Rental expense for operating leases with unrelated third parties amounted to \$1,223 thousand, \$1,812 thousand and \$2,652 thousand in 2011, 2012 and 2013, respectively.

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

In December 2011, the Company entered into a license agreement for the use of Crosstalk relevant technology for product development. In accordance with the agreement, the Company was required to pay an initial license fee (d) based on the progress of the project development and a royalty based on shipments. In 2011, 2012 and 2013, no royalty was paid.

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

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

The Company has entered into several wafer fabrication or assembly and testing service arrangements with service providers. The Company may be obligated to make payments for purchase orders entered into pursuant to (g) these arrangements. Contractual obligations resulting from above arrangements approximate \$121,010 thousand and \$86,522 thousand as of December 31, 2012 and 2013, respectively.

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

F-60

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Note 23. Redeemable Noncontrolling Interest**

During 2013, Himax Display, Inc., a consolidated subsidiary of the Company, issued redeemable convertible preferred shares to a non-controlling shareholder. The noncontrolling shareholder may, solely at its option, convert their preferred shares at any time into ordinary shares of Himax Display, Inc. on a one to one basis. Additionally, Himax Display, Inc. provided the noncontrolling shareholder with a liquidation preference and redemption feature and also issued the noncontrolling shareholder a warrant to purchase additional preferred shares of Himax Display, Inc. within one year from the original investment closing date. The Company recognized an initial liability at fair value for the warrant obligation at the date of issuance and changes in the fair value of the warrant are recognized in earnings. See Note 19 for further explanation. Consequently, the convertible preferred shares of Himax Display, Inc. are presented as redeemable noncontrolling interest on the Company's consolidated balance sheet.

The redeemable noncontrolling interest was originally recognized on the balance sheet at fair value. Each reporting period, the redeemable noncontrolling interest is presented at the greater of its carrying amount or redemption value. Changes in value from period to period are charged to Himax stockholders on our consolidated balance sheets. As of December 31, 2013, the aggregate value of the redeemable noncontrolling interest was \$3,656 thousand. Net loss attributable to the redeemable noncontrolling interest is \$125 thousand for the year ended December 31, 2013.

**Note 24. Segment, Product and Geographic Information**

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

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

|   | Year Ended December 31, 2012 |                        | Consolidatd<br>Total |
|---|------------------------------|------------------------|----------------------|
|   | Driver IC<br>(in thousands)  | Non-driver<br>products |                      |
| Segment revenues                          | \$ 634,111                   | 103,144                | 737,255              |
| Segment operating income (loss)           | \$ 83,883                    | (16,823)               | 67,060               |
| Non operating loss, net                   |                              |                        | (1,174)              |
| Consolidated earnings before income taxes |                              |                        | \$ 65,886            |
| Significant noncash item:                 |                              |                        |                      |
| Share Based Compensation                  | \$ 1,612                     | 324                    | 1,936                |
| Depreciation and amortization             | \$ 8,881                     | 4,418                  | 13,299               |

F-62

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|   | Year Ended December 31, 2013 |                        | Consolidated<br>Total |
|---|------------------------------|------------------------|-----------------------|
|   | Driver IC                    | Non-driver<br>products |                       |
|   | (in thousands)               |                        |                       |
| Segment revenues                          | \$ 644,500                   | 126,239                | 770,739               |
| Segment operating income (loss)           | \$ 89,162                    | (14,819)               | 74,343                |
| Non operating gain, net                   |                              |                        | 1,057                 |
| Consolidated earnings before income taxes |                              |                        | \$ 75,400             |
| Significant noncash item:                 |                              |                        |                       |
| Share Based Compensation                  | \$ 1,359                     | 481                    | 1,840                 |
| Depreciation and amortization             | \$ 7,564                     | 6,745                  | 14,309                |

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

|   | Year Ended December 31, |         | 2013    |
|---|-------------------------|---------|---------|
|   | 2011                    | 2012    |         |
|   | (in thousands)          |         |         |
| Display drivers for large-size applications           | \$ 270,372              | 305,247 | 228,927 |
| Display drivers for mobile handsets applications      | 169,248                 | 177,175 | 232,019 |
| Display drivers for consumer electronics applications | 112,836                 | 151,689 | 183,554 |
| Others  | 80,565                  | 103,144 | 126,239 |
|   | \$ 633,021              | 737,255 | 770,739 |

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

|                                      | Year Ended December 31, |         | 2013    |
|--------------------------------------|-------------------------|---------|---------|
|                                      | 2011                    | 2012    |         |
|                                      | (in thousands)          |         |         |
| Taiwan                               | \$ 395,228              | 356,793 | 283,989 |
| China                                | 209,216                 | 334,433 | 400,501 |
| Other Asia Pacific (Korea and Japan) | 27,738                  | 43,245  | 84,695  |
| Europe and America                   | 839                     | 2,784   | 1,554   |
|                                      | \$ 633,021              | 737,255 | 770,739 |

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



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013**

|        | December 31,<br>2012<br>(in thousands) | 2013   |
|--------|--|--------|
| Taiwan | \$ 51,519                              | 59,562 |
| China  | 744                                    | 785    |
| U.S.   | 330                                    | 199    |
| Korea  | 16                                     | 42     |
|        | \$ 52,609                              | 60,588 |

Revenues from significant customers, those representing 10% or more of total revenue for the respective periods, are summarized as follows:

|   | Year Ended December 31,<br>2011                      2012                      2013<br>(in thousands) |         |         |
|---|---|---------|---------|
| INX and its affiliates, not a related party since June 19, 2013 | \$ 258,156  | 251,974 | 173,976 |
| Customer A and its affiliates                                   | 35,908  | 86,069  | 130,259 |
|   | \$ 294,064  | 338,043 | 304,235 |

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

|   | December 31,<br>2012<br>(in thousands) | 2013   |
|---|--|--------|
| INX and its affiliates, not a related party since June 19, 2013 | \$ 73,432                              | 48,443 |
| Customer A and its affiliates                                   | 29,198                                 | 43,245 |
|   | \$ 102,630                             | 91,688 |

As of December 31, 2012 and 2013, allowance for sales returns and discounts for those accounts receivable was \$342 thousand and \$427 thousand, respectively.

**Note 25. Himax Technologies, Inc. (the Parent Company only)**

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

F-64



**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**

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

**December 31, 2011, 2012 and 2013**

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

**Condensed Balance Sheets**

|   | December 31,<br>2012<br>(in thousands) | 2013    |
|---|--|---------|
| Cash                                    | \$ 1,075                               | 268     |
| Other current assets                    | 835                                    | 912     |
| Investment in non-marketable securities | 1,600                                  | 5,600   |
| Investments in subsidiaries             | 627,792                                | 680,841 |
| Total assets                            | \$ 631,302                             | 687,621 |
| Current liabilities                     | \$ 176                                 | 233     |
| Short-term debt                         | 54,000                                 | 86,500  |
| Debt borrowing from a subsidiary        | 149,183                                | 151,064 |
| Total equity                            | 427,943                                | 449,824 |
| Total liabilities and equity            | \$ 631,302                             | 687,621 |

Himax Technologies, Inc. had no guarantees as of December 31, 2012 and 2013.

**Condensed Statements of Income**

|                                      | Year ended December 31,<br>2011                      2012<br>(in thousands) |         | 2013   |
|--------------------------------------|---|---------|--------|
| Revenues                             | \$ -  | -       | -      |
| Costs and expenses                   | 548   | 695     | (248)  |
| Operating Income (loss)              | (548)   | (695)   | 248    |
| Equity in earnings from subsidiaries | 13,433  | 54,929  | 59,402 |
| Other non-operating loss             | (2,179)   | (2,637) | 1,826  |
| Earnings before income taxes         | 10,706  | 51,597  | 61,476 |
| Income taxes expenses                | -   | (1)     | -      |
| Net Income                           | \$ 10,706   | 51,596  | 61,476 |

**HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****December 31, 2011, 2012 and 2013****Condensed Statements of Comprehensive Income**

|  | Year Ended December 31, |          | 2012  |        | 2013 |        |
|--|-------------------------|----------|-------|--------|------|--------|
|  | 2011                    |          |       |        |      |        |
| Net income   | \$ -                    | 10,706   | -     | 51,596 | -    | 61,476 |
| Other comprehensive income (loss):   |                         |          |       |        |      |        |
| Unrealized gains (losses) on securities, not subject to income tax:  |                         |          |       |        |      |        |
| Unrealized holding gains (losses) on available-for-sale marketable securities arising during the period            | (305)                   | -        | 59    | -      | (12) | -      |
| Reclassification adjustment for realized losses (gains) included in net income                                     | (350)                   | (655)    | (648) | (589)  | 8    | (4)    |
| Foreign currency translation adjustments, not subject to income tax  |                         | 128      |       | 50     |      | 161    |
| Net unrecognized actuarial gain (loss), net of tax of \$(125), \$8 and \$(99) in 2011, 2012 and 2013, respectively |                         | (573)    |       | 233    |      | (401)  |
| Comprehensive income   |                         | \$ 9,606 |       | 51,290 |      | 61,232 |

**Condensed Statements of Cash Flows**

|   | Year ended December 31, |          | 2013 |          |
|---|-------------------------|----------|------|----------|
|   | 2011                    | 2012     |      |          |
|   | (in thousands)          |          |      |          |
| Cash flows from operating activities:   |                         |          |      |          |
| Net income  | \$ 10,706               | 51,596   |      | 61,476   |
| Adjustments to reconcile net income to net cash used in operating activities: |                         |          |      |          |
| Equity in earnings from subsidiaries  | (13,433)                | (54,929) |      | (59,402) |
| Changes in operating assets and liabilities:                                  |                         |          |      |          |
| Other current assets  | (790)                   | 311      |      | (77)     |
| Other current liabilities   | 1,767                   | 1,637    |      | 57       |
| Net cash provided by (used in) operating activities                           | (1,750)                 | (1,385)  |      | 2,054    |

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|   |             |           |           |
|---|-------------|-----------|-----------|
| Net cash used in investing activities                       | -           | -         | (4,060)   |
| Cash flows from financing activities:                       |             |           |           |
| Distribution of cash dividends                              | \$ (21,224) | (10,680)  | (42,394)  |
| Proceeds from borrowing of short-term debt                  | 271,200     | 266,000   | 295,320   |
| Repayment of short-term debt                                | (250,000)   | (277,200) | (262,820) |
| Investment returned from subsidiaries                       | -           | 56,836    | -         |
| Proceeds from issue of RSUs from a subsidiary               | 1,634       | 1,306     | 9,212     |
| Purchase of subsidiary shares from noncontrolling interests | (1,324)     | -         | -         |
| Proceeds from (repayment of) debt from a subsidiary         | 6,300       | (25,500)  | 1,881     |
| Acquisitions of ordinary shares for retirement              | (4,627)     | (8,886)   | -         |
| Net cash provided by financing activities                   | 1,959       | 1,876     | 1,199     |
| Net increase (decrease) in cash                             | 209         | 491       | (807)     |
| Cash at beginning of year                                   | 375         | 584       | 1,075     |
| Cash at end of year   | \$ 584      | 1,075     | 268       |
| Supplemental disclosures of cash flow information:          |             |           |           |
| Interest paid during the year                               | \$ 353      | 264       | 301       |
| Income taxes paid during the year                           | \$ -        | 1         | -         |

F-66