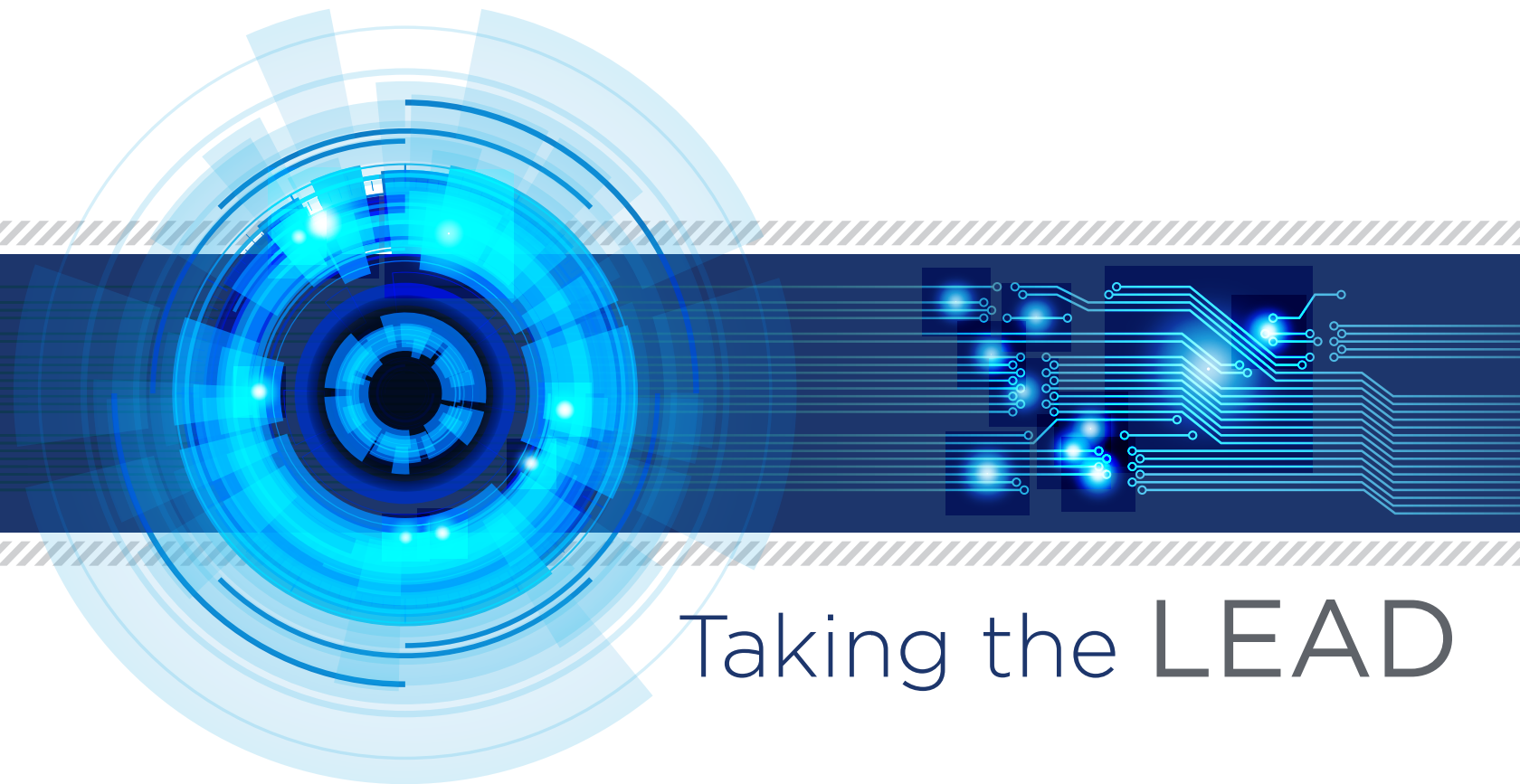




Semiconductor
Research
Corporation



Taking the **LEAD**

LEADING THE WAY

For the past three decades SRC has consistently been a semiconductor industry leader, providing collaborative pre-competitive research that benefits the semiconductor industry, the nation and the world. Originally, most SRC members participated broadly across the semiconductor technology spectrum. Today, however, companies are more likely to focus their research, resources and finances within a particular market sector. With this current industry trend, it's essential that SRC research enables a continuation of the *semiconductor value proposition* for all its members – and becomes attractive to new players.

So as SRC maintains a clear focus on research that supports physical scaling of CMOS technology to its limits, we are also broadening our sights to include innovations we couldn't have imagined 30 years ago. These additional research directions include identifying new technologies that provide increased value without explicit dependence on scaling, e.g. cybersecurity; and seeking new materials, processes, devices, and interconnect technologies that supplement/replace extremely-scaled CMOS.

SRC OPERATIONS: ADAPTING FOR TODAY, ANTICIPATING TOMORROW

Some of the ways SRC is adapting its operations to fuel innovation and increase member value include:

- Creating custom research programs for major supporters that closely align with their technology focus;
- Developing and maintaining balanced approaches for the creation and operation of special efforts, weighing their potential value against the effort/costs required to initiate and sustain them;
- Increasing focus on highly leveraged government partnerships;
- Using the SRC IP portfolio as a safe asset for member companies; and
- Producing students trained in the fundamentals, who are able to adapt and lead throughout their careers, as industry requirements change.

SRC is privileged to serve this dynamic industry, and we welcome the opportunity to continue our tradition of creating timely, high-value research programs for our members. Change is a way of life for the semiconductor industry, but we believe that the best is yet to be.

STUDENT PROGRAMS

Providing invaluable opportunity for the next generation of innovators, SRC's student programs engage undergraduate and graduate students in relevant research that benefits our member companies. During 2014 student programs impacted the research, innovation and educational goals of over 2200 students that make up the critical workforce driving the semiconductor sector. Through our comprehensive undergraduate and graduate programs, SRC enhances the visibility of member companies, provides industry opportunities for the world's best and brightest students, and leads the way in supplying relevantly educated talent to our members. By understanding the member needs in developing the human capital ecosystem, SRC is strongly positioned to provide the talent that can take the lead.

TECHCON 2014

This past September, SRC hosted 250 students at its 16th Annual TECHCON – the premier industry event to showcase the best university research sponsored by SRC membership. The conference brings together industry, government, and academia to showcase investment in innovation that impacts and drives the semiconductor space and global economy while developing the next generation of talent and scientific leadership.

TECHCON continues to be the leading opportunity for SRC students nearing completion of their degree to present research, network with peers and explore career opportunities with SRC members – all within a truly collaborative environment.

TECHCON Numbers

- 160 presentations
- 10% increase in presentations
- 68 universities represented (4 international)

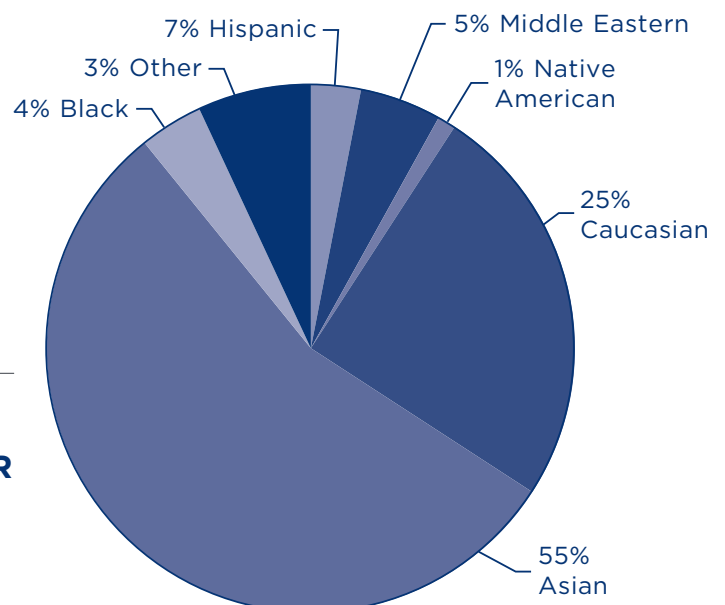
SRC'S NEXT GENERATION OF INNOVATORS

Undergraduate Numbers 2014

- 347 undergraduates supported
- 39% Female and 61% Male undergraduates
- 3.45 Average GPA
- 99% Retained in URO-STEM
- 46% progress to graduate school (cumulative)
- 50 URO students attending TECHCON
- 14 Universities receiving funding
- 135 Faculty involved with undergraduate research
- Additional \$575,000 in leveraged funding through University partnerships for undergraduate research.

ELECTRICAL ENGINEERING, MATERIAL ENGINEERING AND SCIENCE, COMPUTER ENGINEERING AND SCIENCE, PHYSICS, CHEMISTRY AND CHEMICAL ENGINEERING LEAD THE WAY IN OUR GRADUATE DEGREES

2228 STUDENTS ACTIVE IN 2014





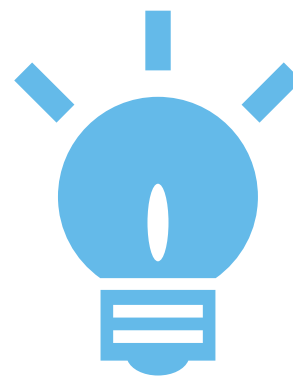
GLOBAL RESEARCH COLLABORATION

Global Research Collaboration (GRC) is taking the lead in creating innovative research directions and business opportunities for our current members – and for those companies yet to join us. Our programs address the constantly evolving challenges and highly anticipated potential for the semiconductor industry.

Although we are maintaining research focused on the current priorities of the semiconductor industry, including the continued scaling of semiconductor technologies and finding diverse applications for this technology, we have expanded our traditional research topics in 2014 into new application space and time horizon, increasing the breadth of our research portfolio. Building upon the fresh research directions recently put in place, our efforts have grown significantly over the past year and include the targeted topics of cybersecurity, semiconductors and biology, advanced connectivity, and the internet of things.

GRC's cybersecurity research, known as Trustworthy and Secure Semiconductors and Systems (T3S), has a goal to develop cost-effective strategies and tools to design and manufacture chips and systems that are reliable, trustworthy, secure, and resistant to attack or counterfeiting. T3S was launched in 2014 and includes a \$10 million, multi-year program that is co-funded by SRC and the National Science Foundation (NSF). A cross-disciplinary topic, T3S is one of several possible new areas of research that involve multiple science fields.

The semiconductors and biology area is called **Semiconductor Synthetic Biology (SemiSynBio)**, which supports research that seeks to learn from living cells how to benefit semiconductor technologies. Research results will lead to more energy efficient devices, improved manufacturing techniques, and enhanced architectural approaches to computational capability.



**ALL MEMBERS
RECEIVE RIGHTS TO
78
INVENTIONS
REPORTED BY
SRC RESEARCHERS
IN 2014**

SRC MANAGED
A TOTAL OF
448
CONTRACTS,
GRANTS AND
AGREEMENTS WITH
143
DIFFERENT
UNIVERSITIES
AND RESEARCH
ORGANIZATIONS
WORLDWIDE
IN 2014

227 
GRADUATES FOR 2014



**16 SCHOLARS AND
FELLOWS FOR 2014**

*adding 8 new Scholars and
Fellows for 2015 - these are fully
funded Masters Scholarships
and Graduate Fellowships.*

“ GRC’s efforts have grown significantly over the past year and include the targeted topics of cybersecurity, semiconductors and biology, advanced connectivity, and the internet of things. ”

**Efficiency and Performance for Connectivity
Constrained Computing (EP3C)**, a targeted new

research effort in advanced connectivity initiated in 2014, has the goal of identifying revolutionary architectures and associated interconnect technology that minimize the energy constraints on future computing performance improvements. This cross-disciplinary and directly collaborative research will leverage essential resources from the NSF in order to achieve a critical mass to address this time-sensitive challenge.

Also launched in 2014 is GRC’s targeted Internet of Things (IoT) research, **Innovative and Intelligent Internet of Things (I3T)**, which investigates energy-constrained computation and connectivity. This research emphasizes sensing and actuation, energy use, integration and packaging, bringing together specific industry needs that enable breakthrough technologies for the next generation of intelligent, connected and autonomous devices.

These exciting topics have an appeal beyond our current members and pave a way for new membership and participation options. Each area pursues innovative solutions to problems that both create market opportunities for the industry, as well as provide leadership in research areas that require cross-disciplinary university research and government participation. GRC is not only leading the effort to identify the topics for longer-term research, but is also establishing the organizational structure for this research to optimize efficiency and effectiveness.

STARnet

The STARnet program, sponsored by both DARPA and industry, has completed the second year of its five-year mission. During the second year, the STARnet researchers generated 694 publications and 75 graduates available for jobs in industry, government or academia. Each of the six centers has hit its stride and shown strong research progress, as evidenced in their quarterly and annual reports. Technology transfer of these valuable research results continued as the centers held their annual reviews with strong sponsor participation, and center researchers continued to communicate their results with on-site seminars, as well as many eSeminars.

Several critical new projects have been added

The new STARnet undergraduate internship program enabled 11 outstanding U.S. undergraduates to experience work as a graduate student, and all of them plan to pursue advanced technical degrees. This student program will be doubled in size within the next year.

A 250-node swarm testbed was added in Terraswarm to enable them to test their software in a realistic IoT environment.

The LEAST center added a synthetic organometallic chemist to provide new precursors to enable novel 2D material synthesis across the program, a critical need for this device work.

In early 2015 a full realignment planning exercise will be executed across STARnet to optimize research resources and priorities for the second half of the program through 2017. Aside from enhancing the overall program, top priorities of the realignment exercise are to ensure sponsor retention and identify recruiting priorities for the second half of the program and beyond.

STRONG COLLABORATION WITHIN AND AMONG THE SIX CENTERS CONTINUED TO RESULT IN MANY SUCCESSFUL RESEARCH EFFORTS

- Center for Future Architectures Research - C-FAR
- Systems On Nanoscale Information fabriCs - SONIC
- TerraSwarm Research Center - TerraSwarm
- Function Accelerated nanoMaterial Engineering Center - FAME
- Center for Spintronic Materials, Interfaces and Novel Architectures - C-SPIN
- Center for Low Energy Systems Technology - LEAST

100%


OF THE "INAUGURAL" STARnet UNDERGRADUATE RESEARCH INTERNSHIP PLAN TO ATTEND GRADUATE SCHOOL

45% of participants represented a diverse demographic



NANOELECTRONICS RESEARCH INITIATIVE

SRC's Nanoelectronics Research Initiative (NRI) continued to exert strong leadership in the growing international community of researchers exploring new devices for computing – devices with the potential to take computing beyond the fundamental limitations of the field effect transistor. Three multidisciplinary research centers, co-funded with the National Institute of Standards and Technology (NIST), constitute the heart of the program, with each center focused on two or three promising device concepts.



Over the past year, perhaps the most exciting results came from CNFD, where advances in voltage-controlled magnetism are opening new approaches to fast, low-power memory and logic. Leadership was also exemplified by the benchmarking research effort – a rigorous methodology developed by NRI for evaluating the relative performance potential of diverse exploratory devices. In 2014 benchmarking was expanded to device concepts pursued by three STARnet centers (C-SPIN, FAME, and LEAST), as well as new device concepts from the NRI centers. The latest results were presented at the second annual NRI/STARnet Benchmarking Workshop. With improvement in methodology, rigor and understanding, some older device concepts look less promising than they did in the 2012 benchmarking study; however, some of the newer device concepts look increasingly competitive with CMOS.

Finally, NRI continued to explore longer-term research objectives through 12 Nanoelectronics for

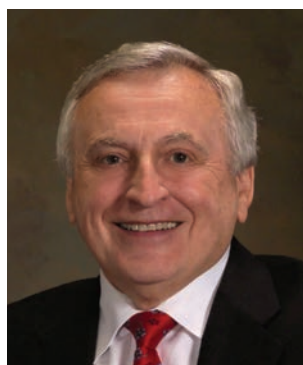
Beyond 2020 (NEB2020) projects co-funded with the NSF. The results from some of these highly exploratory projects have fed into the more focused NRI and STARnet centers. With the NEB2020 projects concluding in 2015, NRI partnered with NSF and began developing a new solicitation for research proposals that would look well beyond NRI's current research horizon. Through such exploratory research, NRI will continue to provide “headlights” on the future for SRC and its member companies.

NRI MULTI-UNIVERSITY, MULTIDISCIPLINARY RESEARCH CENTERS CO-FUNDED WITH THE NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY (NIST)

- Center for NanoFerroic Devices – CNFD
- Institute for Nanoelectronics Discovery and Exploration – INDEX
- South West Academy of Nanoelectronics – SWAN

2014

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*President & Chief
Executive Officer*



STEVEN HILLENIUS

*Executive Vice President, SRC
Executive Director, GRC
Chief Operating Officer, ERI*



WILLIAM JOYNER

Senior Director, SRC

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Applied Materials, Inc.

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United Technologies Corporation

Government Participation

DARPA
NIST
NSF
State of Arizona
State of Nebraska
State of New York
State of Texas
U.S. Air Force Research Laboratory

Strategic Partners

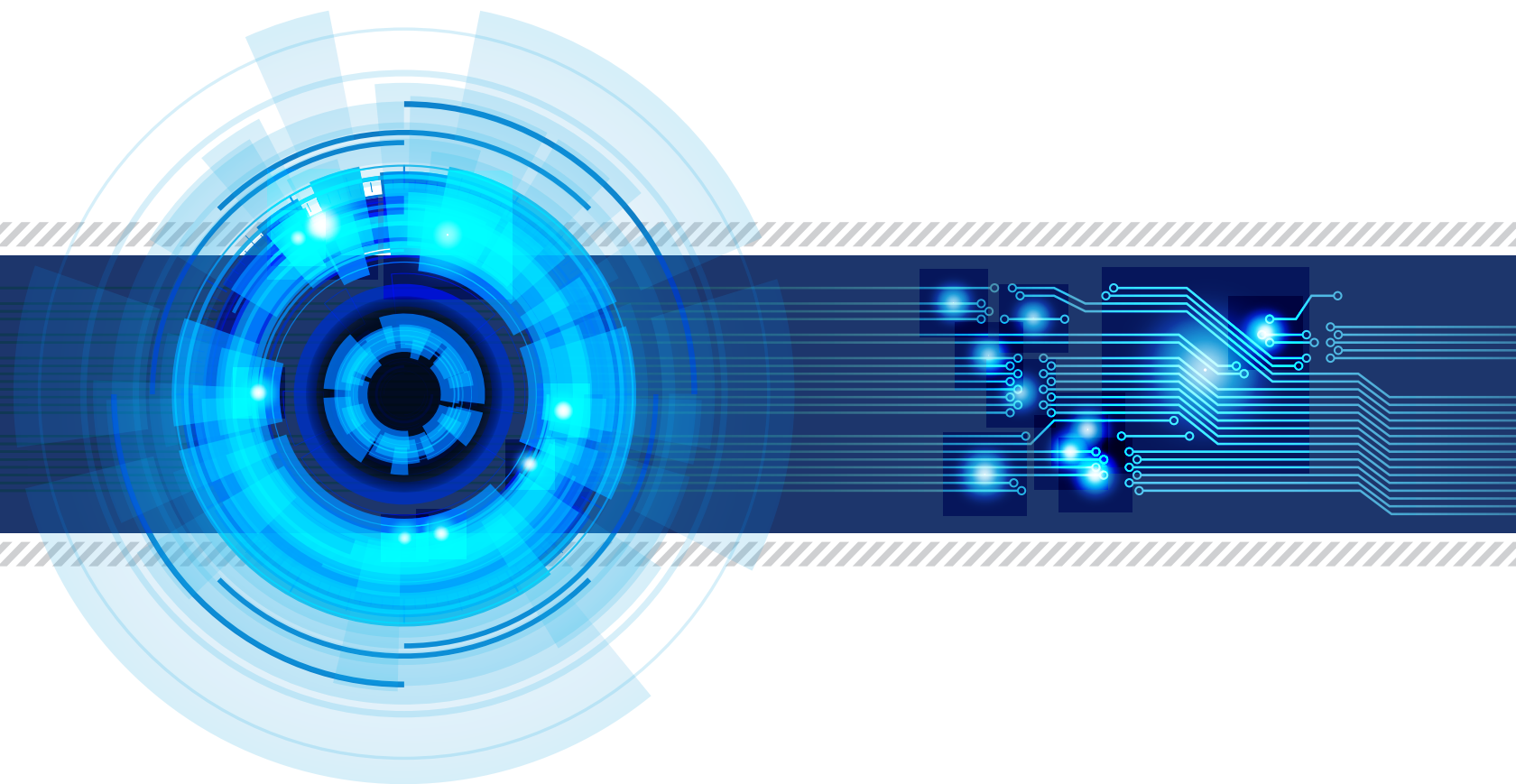
SEMATECH
SEMI
SIA
MOSIS

 **US Mail:** P.O. Box 12053, Research Triangle Park, NC 27709-2053 | **Packages and Visits:** 1101 Slater Rd, Ste 120, Durham, NC 27703

 **Phone:** Call us at: (919) 941-9400  Fax us at: (919) 941-9450  www.src.org



Semiconductor
Research
Corporation



SEMICONDUCTOR RESEARCH CORPORATION AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Reports on Federal Awards in Accordance with OMB Circular A-133 for the Year
Ending December 31, 2014 EIN 58-1483645

SEMICONDUCTOR RESEARCH CORPORATION

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DECEMBER 31, 2014 AND 2013



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Independent Auditor's Report

To the Board of Directors of
Semiconductor Research Corporation

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as "SRC"), which comprise the combined statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SRC as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2014 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the combined financial statements. As described in Note 2 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, on the basis of accounting described in Note 2, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015 on our consideration of SRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SRC's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Raleigh, North Carolina
March 25, 2015

SEMICONDUCTOR RESEARCH CORPORATION

3

COMBINED STATEMENTS OF FINANCIAL POSITION • DECEMBER 31, 2014 AND 2013

(in thousands of dollars)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 40,712	\$ 49,589
Investments	16,002	15,365
Membership fees receivable	2,072	1,989
Grants receivable	-	234
Other current assets	1,687	935
Total current assets	<u>60,473</u>	<u>68,112</u>
Fixed assets		
Computer and office equipment	1,263	1,222
Furniture and fixtures	870	870
	<u>2,133</u>	<u>2,092</u>
Less - accumulated depreciation	<u>(2,046)</u>	<u>(1,897)</u>
Net fixed assets	<u>87</u>	<u>195</u>
Other noncurrent assets	<u>1,556</u>	<u>1,550</u>
Total assets	<u>\$ 62,116</u>	<u>\$ 69,857</u>
Liabilities and Net Assets		
Current liabilities		
Research contracts payable	\$ 35,750	\$ 43,810
Accounts payable and accrued expenses	1,886	2,012
Deferred revenue	6,378	5,957
Deferred tax liability	292	256
Total current liabilities	<u>44,306</u>	<u>52,035</u>
Other noncurrent liabilities	<u>1,647</u>	<u>1,696</u>
Total liabilities	<u>45,953</u>	<u>53,731</u>
Unrestricted net assets - undesignated	13,821	12,822
Temporarily restricted net assets	2,342	3,304
Total net assets	<u>16,163</u>	<u>16,126</u>
Total liabilities and net assets	<u>\$ 62,116</u>	<u>\$ 69,857</u>

The accompanying notes are an integral part of these combined financial statements.

(in thousands of dollars)

	2014	2013
Changes in unrestricted net assets		
Revenue and gains		
Member fees - undesignated	\$ 18,832	\$ 20,346
Infrastructure member fees	1,988	2,778
Thrust member fees	225	-
Associate member fees	100	100
Investment return	763	551
Participant revenue	1,375	2,875
Management fee revenue	785	-
Total unrestricted revenues and gains	24,068	26,650
Expenses		
Contract research and grants	18,234	17,571
Graduate Fellowship Program	275	464
Management and general	7,159	6,753
Income tax expense (benefit)	237	(240)
Total expenses	25,905	24,548
Focus Center Research Program		
Participant fees	23,756	21,079
Grant revenue	16,147	12,164
Investment return	30	31
Contract research and grant expense	(37,951)	(39,007)
Management and general	(1,528)	(1,817)
Total Focus Center Research Program	454	(7,550)
SRC Education Alliance Program		
Participant fees	896	1,309
Other income	58	3
Investment return	4	14
Grant expense	(1,044)	(815)
Management and general	(305)	(306)
Total SRC Education Alliance Program	(391)	205
Nanoelectronics Research Initiative Program		
Participant fees	4,750	5,050
Grant revenue	4,310	693
Investment return	13	12
Contract research and grant expense	(5,531)	(4,604)
Management and general	(709)	(814)
Total Nanoelectronics Research Corporation Program	2,833	337

The accompanying notes are an integral part of these combined financial statements.

(in thousands of dollars)

	2014	2013
Energy Research Initiative Program		
Participant fees	400	750
Contract research and grant expense	(323)	(885)
Management and general	(137)	(165)
Total Energy Research Initiative Program	<u>(60)</u>	<u>(300)</u>
Decrease in unrestricted net assets	<u>999</u>	<u>(5,206)</u>
Change in temporarily restricted net assets		
Member fees - designated (SRC)	12,477	11,730
Member fees - designated (NERC)	450	150
Contract research and grants	(13,889)	(14,339)
Change in temporarily restricted net assets	<u>(962)</u>	<u>(2,459)</u>
Change in net assets	<u>37</u>	<u>(7,665)</u>
Net assets at beginning of year	<u>16,126</u>	<u>23,791</u>
Net assets at end of year	<u>\$ 16,163</u>	<u>\$ 16,126</u>

(in thousands of dollars)

	2014	2013
Operating activities		
Change in net assets	\$ 37	\$ (7,665)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	149	134
Deferred taxes	36	(181)
Net realized (gains) losses and change in net unrealized (gains) losses on investments	(309)	(1)
Changes in operating assets and liabilities		
Membership fees receivable	(83)	175
Grants receivable	234	(234)
Other assets	(758)	(941)
Research contracts payable	(8,060)	21,258
Accounts payable and accrued expenses	(126)	409
Deferred revenue	421	(703)
Other noncurrent liabilities	(49)	399
Net cash (used in) provided by operating activities	<u>(8,508)</u>	<u>12,650</u>
Investing activities		
Purchases of investments	(8,576)	(10,464)
Proceeds from sale of investments	8,248	9,531
Purchases of fixed assets	(41)	(130)
Net cash used in investing activities	<u>(369)</u>	<u>(1,063)</u>
Net (decrease) increase in cash and cash equivalents	(8,877)	11,587
Cash and cash equivalents, beginning of year	49,589	38,002
Cash and cash equivalents, end of year	<u>\$ 40,712</u>	<u>\$ 49,589</u>
Supplemental disclosures of cash flow information		
Federal and state income taxes paid	<u>\$ 390</u>	<u>\$ 110</u>
Federal and state income tax refunds	<u>\$ -</u>	<u>\$ 143</u>

(in thousands of dollars)



1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Basis of Combination

Semiconductor Research Corporation (“SRC” or the “Corporation”) is a nonprofit taxable mutual benefit corporation formed in 1982 to conduct research in the fields of engineering and physical science related to semiconductor development and manufacturing. Activity has centered on initiation and administration of contract research with various institutions and universities. SRC has expended approximately \$1.25 billion since inception through December 31, 2014 relating to fellowships, contract research and grant expenses and industry support activities. SRC’s charter requires that member corporations (members and infrastructure members), which are corporations involved in the manufacturing, purchase, use or sale of semiconductors or semiconductor related equipment, software and materials, be assessed membership fees based on a percentage of their semiconductor sales, use or manufacture. These fees are subject to certain limitations.

SRC has created other classes of membership some of which allow organizations and companies otherwise not eligible for membership to join SRC. Adjunct, associate and affiliate members must undertake research and development of semiconductor devices; they have similar privileges of membership except they do not have direct representation on the Board of Directors. Thrust members are companies which are eligible to join SRC as a member or infrastructure member, but are only interested in a limited section of research. These member pay a set fee for membership in either one or multiple research thrusts.

The combined financial statements include the accounts of Semiconductor Research Corporation Education Alliance (SRCEA), Microelectronics Advanced Research Corporation (MARCO), Nanoelectronics Research Corporation (NERC), National Institute for Nano-Engineering Company (NINECo), and The Energy Research Corporation (TERC). SRCEA is a nonprofit 501(c) (3) education organization. The organization manages the HR Roadmap and Undergraduate Engineering Programs. MARCO is a nonprofit 501(c) (6) organization formed in 1997 to manage a U.S. university based pre-competitive Focus Center Research Program (FCRP) in semiconductor technology. NERC is a nonprofit 501(c) (6) research management organization formed to manage the Nanoelectronic Research Initiative (NRI) program. NINECo is a nonprofit taxable mutual benefit corporation that was formed to manage the National Institute of Nano-Engineering for Sandia National Laboratory. TERC is a nonprofit taxable mutual benefit corporation formed to manage the Energy Research Initiative program (ERI), which manages research related to photovoltaics and other energy related projects consistent with moving from carbon-based fuels. MARCO, SRCEA, NERC, NINECo, and TERC have been combined with SRC in the accompanying financial statements because SRC maintains control of a majority voting interest in all entities. All significant transactions and balances between affiliates have been eliminated in combination.

(in thousands of dollars)


Basis of Accounting and Presentation

The financial statements of SRC have been prepared on the accrual basis of accounting.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of SRC and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to member-imposed stipulations.
- Temporarily restricted net assets – net assets subject to member-imposed stipulations that are expected to be met either by actions of SRC and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by member-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit member stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the member-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as contract research and grants.

Correction of Prior Period Errors

In the process of analyzing temporarily restricted net assets in 2014, management determined that errors had been made in prior years related to the treatment of certain items. Specifically, management fees associated with temporarily restricted revenues were incorrectly included in the temporarily restricted net assets. Additionally, write-offs related to closed programs were not removed from temporarily restricted net assets. Management has determined that none of the errors related to prior periods were material to those periods and has corrected these errors in the current period as out of period adjustments. The result of the correction of errors reduced temporarily restricted net assets by \$742, consisting of a \$455 decrease in revenue and a \$287 increase in contract and research expense. Unrestricted net assets increased by \$742, consisting of a \$455 increase in revenue and a \$287 decrease in contract and research expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of various short-term investments which have original maturities of three months or less.

Investments

SRC invests primarily in US government and federal agency obligations, mutual funds and US equities in order to provide a balanced return of investment income and principal appreciation to SRC with a limited risk of loss exposure.

Investments are carried at estimated market values. Changes in the estimated market value of investments are reflected as unrealized gains or losses, which are included in the investment return amount, in the accompanying combined statements of activities.

(in thousands of dollars)

The Corporation holds investments in certain hedge funds as a limited partner. Market values represent the Corporation's pro rata interest in the net assets of each limited partnership as of December 31, 2014 and 2013, as provided by the fund managers. Market values as of December 31, 2014 and 2013 are not based on audited financial information supplied by the general partner or manager of the funds. Audited information is only available annually based on the partnerships' or funds' year end. Management reviews monthly valuations provided by the general partner or manager of the funds and assesses the reasonableness of the fair values provided at the interim dates and included in the financial statements. Because of the inherent uncertainty of the valuation of these investments, the market values reflected in the accompanying financial statements may differ from realizable values. There are no restrictions on the redemption of these investments.

Membership Fees Receivable

Membership fees receivable include amounts billed and not yet received from members.

Fixed Assets

Computer and office equipment and furniture and fixtures are recorded at cost, and depreciation is calculated using the straight-line method over the estimated useful life as follows:

Computer and office equipment	3 years
Furniture and fixtures	3-7 years

Member Fees

Revenue from members, associate members, infrastructure members, thrust members and adjunct members is recognized ratably over the membership term, starting at the beginning of the membership term. Revenues from affiliate members are recognized upon receipt as participation in the program is voluntary.

Participant Revenue

Revenue from government participants is recognized ratably over the participant term, starting at the beginning of the participant term.

Participant Fees

Revenue from FCRP participants is recognized ratably over the participant term. The contracts between MARCO and FCRP participants stipulate that any net assets which have been accumulated by MARCO from FCRP activities shall be returned to FCRP participants upon termination of the FCRP.

Revenue from NRI and ERI participants is recognized ratably over the participant term.

Management Fee Revenue

Revenue from fees charged to establish research projects for member specific research and is recognized immediately upon issuance of the invoice.

Grant Revenue

Revenue from government sponsored grants is recognized upon satisfaction of funding agreement conditions.

(in thousands of dollars)

**Deferred Revenue**

Membership fees or Participant fees received in advance of the term of the membership agreement or participant agreement are recorded as deferred revenue.

Contract Research and Grants Expense

For all programs, contract research expense is recognized ratably over the term of the contract unless qualified costs billed by the recipient are greater than the ratable amounts; in that case the actual amount billed is recognized. Billings from the recipients are typically delayed. In order to prepare timely financial statements, SRC employs the practice of recognizing contract expense ratably over the term of the contract. This method approximates actual costs incurred under the contract.

Included within contract research and grants expense in the accompanying combined statements of activities are industry support expenses totaling approximately \$1,943 and \$1,628 for the years ended December 31, 2014 and 2013, respectively. These expenses relate to special projects undertaken by SRC and are recognized as incurred.

Unrestricted grants awarded to others are expensed at the time the grant is awarded.

Research Customization Program

SRC has designated certain assets to the Research Customization Program which commenced in January 1997. This program allows members whose fees are \$300 or greater to direct up to 20% of their fees for domestic members and up to 40% of their fees for infrastructure and international members to select university projects which are of particular interest to those members. These funds are accounted for as temporarily restricted net assets due to the third party restriction.

Income Taxes

SRC operates as a nonprofit taxable mutual benefit corporation, incorporated in the State of California. MARCO and NERC are exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code. The SRCEA is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. NINECo and TERC operate as nonprofit taxable mutual benefit corporations, incorporated in the State of Delaware.

The Corporation may recognize an income tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Corporation measures the tax benefit as the largest amount of the benefit that has greater than a 50% likelihood of being realized upon ultimate settlement.

2. INVESTMENTS

The cost and estimated market values of investments at December 31, 2014 and 2013 are as follows:

(in thousands of dollars)

	2014		2013	
	Cost	Estimated Market Value	Cost	Estimated Market Value
U.S. Equities	\$ 4,681	\$ 5,678	\$ 4,114	\$ 4,951
U.S. Government obligations	1,572	1,581	1,793	1,747
Mutual funds	6,670	5,123	5,277	5,103
Municipal bonds	364	364		
Corporate obligations	1,190	2,467	2,417	2,422
Managed future funds	600	665	600	617
Mortgage and asset backed securities	-	-	401	387
Hedge funds	56	89	99	107
Accrued interest	35	35	31	31
	<u>\$ 15,168</u>	<u>\$ 16,002</u>	<u>\$ 14,732</u>	<u>\$ 15,365</u>

At December 31, 2014 and 2013, SRC's investment portfolio included \$726 and \$737, respectively, in money market funds which are reflected as cash and cash equivalents in the accompanying combined statements of financial position.

The components of investment return in the accompanying combined statements of activities for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Interest income, including earnings on cash and cash equivalents	\$ 585	\$ 678
Net realized gains (losses)	211	439
Change in net unrealized gains (losses)	98	(438)
Investment fees	(84)	(72)
	<u>\$ 810</u>	<u>\$ 607</u>

Fair Value Measurements

The Corporation adopted the provisions of the Topic 820 - Fair Value Measurements and Disclosures (Topic 820) of the FASB Accounting Standards Codification effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Fair value measurements and related disclosures utilize the fair value hierarchy required by Topic 820, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 - Quoted prices in active markets for identical debt and equity securities.

Level 2 - Prices determined using quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

(in thousands of dollars)



Level 3 - Prices determined using significant unobservable inputs. Unobservable inputs reflect the Corporation's own assumptions about the factors that other market participants would use in pricing an investment, and would be based on the best information available in the circumstances.

Certain estimates and judgments were required to develop the fair value amounts, which are not necessarily indicative of the amounts that would be realized upon disposition, nor do they indicate the Corporation's intent or ability to dispose of such instruments.

The statements of financial position carrying amounts of receivables, other assets, research contracts and accounts payable, accrued liabilities and deferred revenue approximate fair value due to the short-term nature of these items.

A summary of the inputs used in the measurement of fair value, as of December 31, 2014 and 2013, involving the Corporation's assets and liabilities carried at fair value, is as follows:

Description	Level 1	Level 2	Level 3	Total
Investments as of December 31, 2014	\$ 12,417	\$ 3,496	\$ 89	\$ 16,002
Investments as of December 31, 2013	\$ 11,832	\$ 3,426	\$ 107	\$ 15,365

The following table provides a reconciliation of changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013:

	2014	2013
Balance at beginning of year	\$ 107	\$ 204
Total realized and unrealized gain reported in the combined statement of activities	1	1
Sales proceeds	(19)	(98)
Balance at end of year	\$ 89	\$ 107
Amount of total unrealized (loss) reported in the combined statement of activities attributable to Level 3 assets held at year end	\$ (4)	\$ (24)

3. OPERATING LEASES

SRC leases office space under one noncancelable lease. The lease expires in August 2016 and has minimum rental payments as follows:

2015	\$ 529
2016	359
	<u>\$ 888</u>

Rent expense was approximately \$461 for 2014 and 2013.

(in thousands of dollars)



4. BENEFIT PLANS

SRC sponsors a number of defined contribution plans. The two principal defined contribution plans are the 401(k) Deferred Compensation plan and the Money Purchase Plan (collectively referred to as the "Plans") which cover all employees. Contributions to the Plans are made by SRC based on percentages of eligible compensation as determined by the Board of Directors. Expense under the 401(k) Deferred Compensation plan was approximately \$387 and \$334 for 2014 and 2013, respectively. Expense under the Money Purchase Plan was \$546 and \$589 for 2014 and 2013, respectively.

SRC also has an unfunded supplemental deferred compensation plan in which senior executives participate. SRC established a Rabbi Trust to accumulate funds to satisfy its liabilities with respect to this plan. As of December 31, 2014 and 2013, the assets and the corresponding liability related to this plan were approximately \$1,551 and \$1,546, respectively. The assets are considered Level 1 investments. The assets and the liability are reported gross on the accompanying financial statements, within other noncurrent assets and other noncurrent liabilities, respectively.

5. COMMITMENTS AND CONTINGENCIES

SRC has research contracts and grant commitments outstanding of approximately \$49,011 at December 31, 2014. These commitments represent active research contracts and grants entered into through December 31, 2014, less expenses incurred by SRC on the related contracts. During the period from January 1, 2015 through the date of this report, SRC committed to additional contracts and grants. The first year commitment of these new contracts and grants is approximately \$52,231. During the remaining term of the contracts and grants outstanding as of December 31, 2014 and the contracts and grants entered into between January 1, 2015 and the date of this report, SRC expects to commit an additional \$123,229, related to these contracts and grants. SRC may, at its option, terminate any contracts and commitments upon 60 days written notice. Termination would not occur without due reason, justification and negotiation of contract close-out costs as well as bridging costs for SRC funded graduate students, as appropriate.

Expenditures under Federal contracts are subject to audit by the respective cognizant agency. As SRC has recorded contracts in accordance with the agency agreement, there are no reserves in its combined financial statements as of December 31, 2014 and 2013.

6. INCOME TAXES

SRC incurred income tax expense and (benefit) of \$237 and (\$240) during the years ended December 31, 2014 and 2013, respectively.

(in thousands of dollars)



Income tax benefit and expense consisted of the following:

	2014	2013
Current		
Federal	\$ 150	\$ 57
State	51	(116)
	<u>201</u>	<u>(59)</u>
Deferred		
Federal	38	(161)
State	(2)	(20)
	<u>36</u>	<u>(181)</u>
	<u>\$ 237</u>	<u>\$ (240)</u>

Components of the net deferred income tax (liability) assets were as follows:

	2014	2013
Fixed assets	\$ 153	\$ 48
Net operating loss	<u>2,121</u>	<u>1,740</u>
Total deferred tax assets	2,274	1,788
Valuation allowance	<u>(2,274)</u>	<u>(1,788)</u>
Total deferred tax assets	<u>\$ -</u>	<u>\$ -</u>
Unrealized gain on investments	<u>\$ (292)</u>	<u>\$ (256)</u>
Total deferred tax liability	<u>\$ (292)</u>	<u>\$ (256)</u>

No unrecognized tax benefits existed as of December 31, 2014 and 2013. SRC did not have any additions to its unrecognized tax benefit resulting from uncertain tax positions related to either the current or prior years, and had no reductions resulting due to settlements. The Corporation does not expect any change in unrecognized tax benefits within the next fiscal year.

7. RELATED PARTIES

In 1996, SRC began utilizing personnel from members' companies to assist in program related activities. SRC pays for these services at rates consistent with other providers. Payments for administrative services received from these personnel for the years ended December 31, 2014 and 2013 were approximately \$720 and \$690, respectively, and are included in within management and general expense in the accompanying combined statements of activities. Payments for research services received from these personnel for the years ended December 31, 2014 and 2013 were approximately \$483 and \$535, respectively, and are included in within contract research and grant expense in the accompanying combined statements of activities.

(in thousands of dollars)

**8. CONCENTRATION OF CREDIT RISK**

A majority of SRC's and MARCO's revenues are generated from membership fees assessed to participating companies in the semiconductor industry. For the year ended December 31, 2014, three companies comprised 28.7%, 28.7% and 13.1% of SRC's membership revenues. For the year ended December 31, 2014, three companies comprised 54.6%, 17.2% and 8.6% of MARCO's membership revenues. For the year ended December 31, 2013, three companies comprised 26.4%, 26.4% and 11.7% of SRC's membership revenues. For the year ended December 31, 2013, three companies comprised 54.4%, 17.2% and 8.6% of MARCO's membership revenues.

9. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events in accordance with US GAAP through March 25, 2015, which was the date the financial statements were available to be issued. We have not identified any events that require disclosure.

SEMICONDUCTOR RESEARCH CORPORATION

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS • YEAR ENDED DECEMBER 31, 2014

(in thousands of dollars)



Federal Grantor/Cluster Title	Federal CFDA Number	Total Federal Expenditures
Research and Development Cluster		
<i>Direct Awards</i>		
Department of Defense		
Defense Advanced Research Projects Agency Research and Technology Development	12.910	<u>\$ 18,249</u>
Subtotal Department of Defense		<u>18,249</u>
Department of Commerce		
National Institute of Standards and Technology Measurement and Engineering Research and Standards	11.609	<u>4,310</u>
Subtotal Department of Commerce		<u>4,310</u>
Total Research and Development Cluster		<u>22,559</u>
Total Expenditures of Federal Awards		<u>\$ 22,559</u>



The accompanying notes are an integral part of this schedule.

(in thousands of dollars)

**1. DESCRIPTION OF CORPORATION**

Semiconductor Research Corporation (“SRC” or the “Corporation”) is a nonprofit taxable mutual benefit corporation formed in 1982 to conduct research in the fields of engineering and physical science related to semiconductor development and manufacturing. Activity has centered on initiation and administration of contract research with various institutions and universities. SRC’s charter requires that member corporations (members and infrastructure members), which are corporations involved in the manufacturing, purchase, use or sale of semiconductors or semiconductor related equipment, software and materials, be assessed membership fees based on a percentage of their semiconductor sales, use or manufacture. These fees are subject to certain limitations.

SRC has created other classes of membership which allow organizations and companies otherwise not eligible for membership to join SRC. Adjunct and associate members must undertake research and development of semiconductor devices; they have similar privileges of membership except they do not have direct representation on the Board of Directors.

2. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity for Semiconductor Research Corporation and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A 133, Audits of States, Local Governments, and NonProfit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. SUBRECIPIENTS

In the research and development cluster, the Corporation passed through \$22,407 to subrecipients.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors of
Semiconductor Research Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as "SRC"), which comprise the combined statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SRC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SRC's internal control. Accordingly, we do not express an opinion on the effectiveness of SRC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether SRC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Raleigh, North Carolina
March 25, 2015



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors of
Semiconductor Research Corporation

Report on Compliance for Each Major Federal Program

We have audited Semiconductor Research Corporation and its combined affiliates' (collectively referred to as "SRC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on SRC's major federal program for the year ended December 31, 2014. SRC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for SRC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SRC's compliance.



Opinion on Each Major Federal Program

In our opinion, SRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of SRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SRC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Raleigh, North Carolina
March 25, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2014



SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes no

Identification of major programs: Name of Federal Program or Cluster:
 CFDA Number(s)

12.910 and 11.609 Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: \$676,770

Auditee qualified as low-risk auditee? yes no



SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2014



There are no findings from prior years which require a status update in this report.