



®

Semiconductor  
Research  
Corporation

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# 2017

**ANNUAL REPORT**

## **Building the Future**

2017 was a strong year for SRC and our partners. The combined Joint University Microelectronics Program (JUMP) in partnership with DARPA and the nanoelectronic Computing Research (nCORE) program in partnership with NSF and NIST consisting of ten industry sponsors was built and is set for launch 1/1/18. These programs represent over \$250M of exciting university research to explore new directions with cross-discipline teams taking a holistic view across the design hierarchy stack to attack the challenge of extending Moore's Law economics in the face of a dramatic slowdown in dimensional scaling. Furthermore, SRC held workshops or special sessions in four emerging new topic areas: Bioelectronic Medicine (BEM), Automotive Cybersecurity and Autonomous Vehicles (AC/AV), Intelligent Cognitive Assistants (ICA) and Molecular Information Storage (MIST). The output of these sessions defined a research agenda to which SRC will recruit industry participants to launch new programs in collaboration with partnering government agencies. The emerging topics offer opportunity to attract members in adjacent industries to the semiconductor industry such as the automotive, medical and bioelectronic segments creating a stronger and more diverse SRC. 2017 has laid a solid foundation upon which SRC will continue to build in the coming years.

## **Extending the SRC Global Footprint**

With the addition of TSMC and Samsung in 2017, SRC continues to extend its footprint beyond the U.S. borders. Furthermore, SRC membership now includes seven of the top ten semiconductor companies in the world.

## **Looking ahead to 2018**

Industry consolidation appears to be slowing and with the passing of the new U.S. tax law reducing the corporate tax rate from 35% to 21%, there is a tremendous opportunity in 2018 to capture R&D investment many companies are poised to make. SRC continues to refresh and diversify the overall research agenda and portfolio in an effort to reflect the new needs of the future. Progress has been excellent, but there is still much more to do. You can count on SRC to follow through.

A handwritten signature in cursive script that reads "Kenneth A. Hansen".

**Ken Hansen, President and CEO**

Electors of SRC are on the SIA board and financials will be sent to the SIA CEO to be delivered to the SIA board members.

# **Semiconductor Research Corporation and Affiliates**

**Combined Financial Statements  
December 31, 2017 and 2016**

**EIN 58-1483645**

# Semiconductor Research Corporation

## Index

December 31, 2017 and 2016

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	<b>Page(s)</b>
<b>Report of Independent Auditors .....</b>	<b>2</b>
<b>Combined Financial Statements</b>	
Combined Statements of Financial Position .....	3
Combined Statements of Activities .....	4-5
Combined Statements of Cash Flows.....	6
Notes to Combined Financial Statements.....	7-14



## **Report of Independent Auditors**

To the Management and the Board of Directors of  
Semiconductor Research Corporation

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, 2017 and 2016, and the related combined statements of activities and of cash flows for the years then ended.

### ***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.

### ***Auditors' 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. 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 Company'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 Company'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 financial position of SRC as of December 31, 2017 and 2016, and the results of their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 15, 2018

**Semiconductor Research Corporation**  
**Combined Statements of Financial Position**  
**December 31, 2017 and 2016**

*(in thousands of dollars)*

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 38,573	\$ 42,451
Investments	18,621	16,320
Membership fees receivable	572	1,360
Other current assets	554	413
Total current assets	<u>58,320</u>	<u>60,544</u>
Fixed assets		
Computer and office equipment	798	796
Furniture and fixtures	231	231
	<u>1,029</u>	<u>1,027</u>
Less - accumulated depreciation	<u>(907)</u>	<u>(794)</u>
Net fixed assets	122	233
Other noncurrent assets	<u>1,540</u>	<u>1,654</u>
Total assets	<u>\$ 59,982</u>	<u>\$ 62,431</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Research contracts payable	\$ 21,088	\$ 29,426
Accounts payable and accrued expenses	1,847	2,515
Deferred revenue	9,588	8,457
Deferred tax liability	796	110
Total current liabilities	<u>33,319</u>	<u>40,508</u>
Other noncurrent liabilities	<u>1,651</u>	<u>1,774</u>
Total liabilities	<u>34,970</u>	<u>42,282</u>
Unrestricted net assets - undesignated	20,686	17,256
Temporarily restricted net assets	4,326	2,893
Total net assets	<u>25,012</u>	<u>20,149</u>
Total liabilities and net assets	<u>\$ 59,982</u>	<u>\$ 62,431</u>

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

**Semiconductor Research Corporation**  
**Combined Statements of Activities**  
**Years Ended December 31, 2017 and 2016**

<i>(in thousands of dollars)</i>	<b>2017</b>	<b>2016</b>
<b>Change in unrestricted net assets</b>		
Revenue and gains		
Member fees - undesignated	\$ 11,079	\$ 11,813
Infrastructure member fees	450	448
Thrust member fees	2,933	2,600
Associate member fees	-	100
Grant revenue	90	155
Investment return	2,557	811
Participant revenue	617	852
Fellowship revenue	89	-
Management fee revenue	151	156
Other	7	24
Total unrestricted revenues and gains	<u>\$ 17,973</u>	<u>\$ 16,959</u>
Expenses		
Contract research and grants	\$ 8,304	\$ 8,683
Graduate Fellowship Program	434	386
Management and general	4,504	6,079
Income tax expense	807	371
Total expenses	<u>\$ 14,049</u>	<u>\$ 15,519</u>
Focus Center Research Program		
Participant fees	\$ 23,205	\$ 23,205
Grant revenue	15,552	15,778
Investment return	41	44
Other income	-	6
Contract research and grant expense	(33,677)	(35,660)
Management and general	(1,817)	(1,671)
Total Focus Center Research Program	<u>\$ 3,304</u>	<u>\$ 1,702</u>
SRC Education Alliance Program		
Participant fees	\$ 821	\$ 1,365
Other income	-	1
Investment return	19	4
Grant expense	(783)	(1,463)
Management and general	(198)	(311)
Total SRC Education Alliance Program	<u>\$ (141)</u>	<u>\$ (404)</u>
Nanoelectronics Research Initiative Program		
Participant fees	\$ 4,350	\$ 4,125
Grant revenue	115	3,840
Investment return	12	12
Contract research and grant expense	(7,255)	(6,479)
Management and general	(879)	(836)
Total Nanoelectronics Research Corporation Program	<u>\$ (3,657)</u>	<u>\$ 662</u>
Change in unrestricted net assets	<u>3,430</u>	<u>3,400</u>

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

**Semiconductor Research Corporation**  
**Combined Statements of Activities**  
**Years Ended December 31, 2017 and 2016**

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*(in thousands of dollars)*

	<b>2017</b>	<b>2016</b>
<b>Change in temporarily restricted net assets</b>		
Member fees - designated (SRC)	7,321	7,530
Member fees - designated (NERC)	150	375
Contract research and grants	<u>(6,038)</u>	<u>(7,222)</u>
Change in temporarily restricted net assets	<u>1,433</u>	<u>683</u>
<b>Change in net assets</b>	4,863	4,083
Net assets at beginning of year	<u>20,149</u>	<u>16,066</u>
Net assets at end of year	<u>\$ 25,012</u>	<u>\$ 20,149</u>

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



**Semiconductor Research Corporation**  
**Combined Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

*(in thousands of dollars)*

	2017	2016
<b>Operating activities</b>		
Change in net assets	\$ 4,863	\$ 4,083
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	115	89
Gain on sale of fixed assets	(1)	(8)
Deferred taxes	686	101
Net realized losses (gains) and change in net unrealized losses (gains) on investments	(1,928)	(149)
Changes in operating assets and liabilities		
Membership fees receivable	788	4,641
Grants receivable	-	1,080
Other assets	(27)	542
Research contracts payable	(8,338)	(2,538)
Accounts payable and accrued expenses	(668)	441
Deferred revenue	1,131	1,334
Other noncurrent liabilities	(123)	(49)
Net cash provided by (used in) operating activities	<u>(3,502)</u>	<u>9,567</u>
<b>Investing activities</b>		
Purchases of investments	(9,756)	(18,563)
Proceeds from sale of investments	9,383	18,192
Purchases of fixed assets	(4)	(266)
Proceeds from sale of fixed assets	1	13
Net cash used in investing activities	<u>(376)</u>	<u>(624)</u>
Net increase (decrease) in cash and cash equivalents	(3,878)	8,943
Cash and cash equivalents, beginning of year	42,451	33,508
Cash and cash equivalents, end of year	<u>\$ 38,573</u>	<u>\$ 42,451</u>
<b>Supplemental disclosures of cash flow information</b>		
Federal and state income taxes paid	<u>\$ 151</u>	<u>\$ -</u>

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

# Semiconductor Research Corporation

## Notes to Combined Financial Statements

### December 31, 2017 and 2016

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*(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 \$1.37 billion since inception through December 31, 2017 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 members 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), SRCco Inc., doing business as Microelectronics Advanced Research Corporation (MARCO), and Nanoelectronics Research Corporation (NERC). SRCEA is a nonprofit 501(c) (3) education organization. The organization manages Scholarship and Fellowship Programs 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. MARCO, SRCEA, and NERC 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.

##### **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.

# Semiconductor Research Corporation

## Notes to Combined Financial Statements

### December 31, 2017 and 2016

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*(in thousands of dollars)*

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 either revenue or contract research and grants.

#### **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 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.

The Corporation held investments in certain hedge funds as a limited partner, this investment was liquidated during 2016.

#### **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. In the event that the related research projects are delayed, participant revenue is deferred until the related research projects commence.

# Semiconductor Research Corporation

## Notes to Combined Financial Statements

### December 31, 2017 and 2016

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*(in thousands of dollars)*

#### **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 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.

#### **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. Participant fees received or receivable are deferred until specified research projects commence. For a specific participant agreement, amounts totaling \$3,632 were included in deferred revenue as of December 31, 2017, of which no amounts are in accounts receivable. All amounts received and receivable not committed to research projects and the related management expense are fully refundable.

#### **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 \$1,774 and \$1,868 for the years ended December 31, 2017 and 2016, 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 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.

**Semiconductor Research Corporation**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

(in thousands of dollars)

**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.

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.

**Investments**

The cost and estimated market values of investments at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Cost	Estimated Market Value	Cost	Estimated Market Value
U.S. Equities	\$ 3	\$ 4	\$ 3	\$ 3
Mutual funds	15,424	17,351	14,324	14,566
Mortgage and asset backed securities	59	60	72	73
Exchange Traded Products	963	1,206	1,621	1,678
	\$ 16,449	\$ 18,621	\$ 16,020	\$ 16,320

At December 31, 2017 and 2016, SRC's investment portfolio included \$441 and \$455, 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, 2017 and 2016 are as follows:

	2017	2016
Interest and dividend income, including earnings on cash and cash equivalents	\$ 732	\$ 753
Net realized gains (losses)	69	(110)
Change in net unrealized gains (losses)	1,859	259
Investment fees	(31)	(31)
	\$ 2,629	\$ 871

# Semiconductor Research Corporation

## Notes to Combined Financial Statements

### December 31, 2017 and 2016

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(in thousands of dollars)

#### 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.

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, 2017 and 2016, 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, 2017	\$ 18,561	\$ 60	\$ -	\$ 18,621
Investments as of December 31, 2016	\$ 16,247	\$ 73	\$ -	\$ 16,320

**Semiconductor Research Corporation**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

*(in thousands of dollars)*

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, 2016:

	<b>2016</b>
Balance at beginning of year	\$ 92
Total realized and unrealized gain reported in the combined statement of activities	(32)
Sales proceeds	<u>(60)</u>
Balance at end of year	<u>\$ -</u>
Amount of total unrealized (loss) reported in the combined statement of activities attributable to Level 3 assets held at year end	<u>\$ -</u>

**2. Operating Leases**

SRC leases office space under one noncancelable lease. The lease expires in October 2021 and has minimum rental payments as follows:

2018	\$ 304
2019	313
2020	323
2021	<u>276</u>
	<u>\$ 1,216</u>

Rent expense was approximately \$312 and \$427 for 2017 and 2016, respectively.

**3. 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 \$231 and \$376 for 2017 and 2016, respectively. Expense under the Money Purchase Plan was \$419 and \$510 for 2017 and 2016, 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, 2017 and 2016, the assets and the corresponding liability related to this plan were approximately \$1,536 and \$1,650, 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.

**Semiconductor Research Corporation**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

*(in thousands of dollars)*

**4. Commitments and Contingencies**

SRC has research contracts and grant commitments outstanding of approximately \$21,417 at December 31, 2017. These commitments represent active research contracts and grants entered into through December 31, 2017, less expenses incurred by SRC on the related contracts. During the period from January 1, 2018 through February 8, 2018, SRC committed to additional contracts and grants. The first year commitment of these new contracts and grants is approximately \$42,236. During the remaining term of the contracts and grants outstanding as of December 31, 2017 and the contracts and grants entered into between January 1, 2018 and the date of this report, SRC expects to commit an additional \$157,645 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.

Beginning January 1, 2018, SRC started two new research programs under SRCco. The Joint University Microelectronics Program (JUMP) is a collaborative network of research centers sponsored by industry participants and the Defense Advanced research Projects agency (DARPA). The Nanoelectronic Computing Research program (nCORE) is a collaborative effort between industry partners, the National Institute of Standards and Technology (NIST) and the National Science Foundation (NSF). 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, 2017 and 2016.

**5. Income Taxes**

SRC incurred income tax expense of \$807 and \$371 during the years ended December 31, 2017 and 2016, respectively.

Income tax benefit and expense consisted of the following:

	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Federal	\$ 89	\$ 229
State	32	41
	<u>121</u>	<u>270</u>
<b>Deferred</b>		
Federal	650	95
State	36	6
	<u>686</u>	<u>101</u>
	<u>\$ 807</u>	<u>\$ 371</u>



**Semiconductor Research Corporation**  
**Notes to Combined Financial Statements**  
**December 31, 2017 and 2016**

(in thousands of dollars)

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

	2017	2016
Fixed assets	\$ 66	\$ 24
Net operating loss	<u>2,813</u>	<u>2,655</u>
Total deferred tax assets	2,879	2,679
Valuation allowance	<u>(2,879)</u>	<u>(2,679)</u>
Total deferred tax assets	<u>-</u>	<u>-</u>
Unrealized gain on investments	<u>796</u>	<u>110</u>
Total deferred tax liability	<u>\$ 796</u>	<u>\$ 110</u>

No unrecognized tax benefits existed as of December 31, 2017 and 2016. 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.

**6. 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, 2017 and 2016 were approximately \$630 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, 2017 and 2016 were approximately \$420 and \$441, respectively, and are included in within contract research and grant expense in the accompanying combined statements of activities.

**7. 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, 2017, three companies comprised 44.0%, 26.4% and 8.3% of SRC's membership revenues. For the year ended December 31, 2016, three companies comprised 42.8%, 25.7% and 8.1% of SRC's membership revenues. For the year ended December 31, 2017 and 2016, three companies comprised 55.9%, 17.6% and 8.8% of MARCO's membership revenues.

**8. Subsequent Events**

The Corporation has evaluated subsequent events in accordance with US GAAP through March 15, 2018, which was the date the financial statements were available to be issued. We have not identified any events that require disclosure.

