

MOZILLA FOUNDATION  
AND SUBSIDIARY

DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS

# **Mozilla Foundation and Subsidiary**

## **Independent Auditors' Report and Consolidated Financial Statements**

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## Independent Auditors' Report

THE BOARD OF DIRECTORS  
MOZILLA FOUNDATION AND SUBSIDIARY  
Mountain View, California

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARY (Mozilla)** which comprise the consolidated statement of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and change in net assets, and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mozilla Foundation and Subsidiary as of December 31, 2015 and 2014, and the change in 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.

Hood & Strong LLP

San Jose, California  
November 14, 2016

# Mozilla Foundation and Subsidiary

## Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 70,209	\$ 90,208
Receivables	41,855	42,706
Prepaid expenses and other assets	11,316	8,698
Prepaid income taxes	3,157	10,410
Investments	227,478	137,405
Deferred tax benefits	1,103	
Furniture and equipment, net	17,218	25,504
<b>Total assets</b>	<b>\$ 372,336</b>	<b>\$ 314,931</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 13,270	\$ 12,671
Accrued liabilities	27,486	26,905
Deferred tax liabilities		688
Deferred revenue	529	517
Unrecognized tax positions	7,440	7,645
<b>Total liabilities</b>	<b>48,725</b>	<b>48,426</b>
<b>Net Assets:</b>		
Unrestricted	316,493	261,715
Temporarily restricted	7,118	4,790
<b>Total net assets</b>	<b>323,611</b>	<b>266,505</b>
<b>Total liabilities and net assets</b>	<b>\$ 372,336</b>	<b>\$ 314,931</b>

See accompanying notes to financial statements.

## Mozilla Foundation and Subsidiary

### Consolidated Statement of Activities and Change in Net Assets (In thousands)

<i>Years Ended December 31,</i>	2015	2014
<b>Unrestricted Net Assets:</b>		
Revenues and other support:		
Royalties	\$ 417,380	\$ 323,343
Interest and dividend income	1,573	963
Net realized and unrealized gain (loss) on investments	(1,874)	552
Contributions	4,543	4,240
Other	174	196
Foreign currency exchange loss	(6,012)	(5,691)
Loss on sale of assets	(20)	(466)
Net assets released from restrictions	5,511	6,421
<b>Total unrestricted revenue and support</b>	<b>421,275</b>	<b>329,558</b>
Expenses:		
Program:		
Program services	12,964	13,351
Software development	214,187	212,847
Depreciation	8,716	10,218
Support:		
Branding and marketing	59,951	40,712
General and administrative	39,577	38,065
Depreciation	2,303	2,656
<b>Total expenses</b>	<b>337,698</b>	<b>317,849</b>
<b>Change in Unrestricted Net Assets before Provision for Income Taxes</b>	<b>83,577</b>	<b>11,709</b>
Provision for income taxes	28,799	2,460
<b>Change in Unrestricted Net Assets</b>	<b>54,778</b>	<b>9,249</b>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	7,839	8,327
Net assets released from restriction	(5,511)	(6,421)
<b>Change in Temporarily Restricted Net Assets</b>	<b>2,328</b>	<b>1,906</b>
<b>Change in Net Assets</b>	<b>57,106</b>	<b>11,155</b>
<b>Net Assets - beginning of year</b>	<b>266,505</b>	<b>255,350</b>
<b>Net Assets - end of year</b>	<b>\$ 323,611</b>	<b>\$ 266,505</b>

See accompanying notes to financial statements.

# Mozilla Foundation and Subsidiary

## Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 57,106	\$ 11,155
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	11,019	12,874
Net realized and unrealized gain (loss) on investments	1,874	(552)
Foreign currency exchange loss	6,012	5,691
Unrecognized income tax positions	(205)	1,931
Deferred income taxes	(1,973)	(688)
Loss on sale of assets	20	466
Changes in assets and liabilities:		
Receivables	432	(7,598)
Prepaid expenses and other assets	(3,804)	(1,638)
Accounts payable and accrued expenses	2,266	2,842
Prepaid income taxes	7,284	(708)
<b>Net cash provided by operating activities</b>	<b>80,031</b>	<b>23,775</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(2,983)	(7,623)
Purchases of investments	(181,283)	(95,063)
Proceeds from sale of investments	90,309	94,237
<b>Net cash used by investing activities</b>	<b>(93,957)</b>	<b>(8,449)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(6,073)</b>	<b>(3,656)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(19,999)</b>	<b>11,670</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>90,208</b>	<b>78,538</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 70,209</b>	<b>\$ 90,208</b>
<b>Supplemental Disclosure:</b>		
Cash paid for income taxes	\$ 22,207	\$ 2,882

See accompanying notes to financial statements.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 1 - Nature of the Organization:

Established in July 2003, the Mozilla Foundation (the Foundation) is a California not-for-profit corporation that exists to improve and protect the Internet as a public resource by working with thousands of volunteers to 1) keep the Internet a universal open platform and 2) promote continued innovation on the Internet. The Foundation supports the development of open source, standards compliant, free Internet applications useable free of charge to hundreds of millions of users. It also a) develops foundational technologies that can be used to build the values of openness and interoperability into the internet; and b) runs education programs designed to teach millions of people around the world about how they can use the internet to unlock opportunities in their lives.

The Foundation has a wholly-owned for-profit subsidiary, Mozilla Corporation (the Corporation). The Corporation serves the non-profit, public benefit goals of its parent and the vast Mozilla community. It provides internet based open source software and services (Mozilla Products) to hundreds of millions of users worldwide to fulfill Mozilla's worldwide mission to make the internet and the web open and accessible to all. The Corporation has wholly-owned subsidiaries operating in Canada, Europe, China and several other international branches to further its worldwide mission.

### Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities in conformity with accounting principles generally accepted in the United States of America.

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiary, the Corporation (collectively "Mozilla"). All significant intercompany accounts and transactions have been eliminated.

c. Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions.



# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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*Unrestricted net assets* represent unrestricted resources available to support the operations and temporarily restricted resources which become available for use by Mozilla in accordance with the intentions of donors.

*Temporarily restricted net assets* represent contributions that are limited in use by Mozilla in accordance with temporary donor imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of Mozilla according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

*Permanently restricted net assets* represent contributions to be held in perpetuity as directed by the donor. Mozilla does not have any permanently restricted net assets as of December 31, 2015 and 2014.

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, Mozilla considers its operating checking and sweep accounts to be cash and cash equivalents.

e. Receivables

Receivables consist primarily of amounts due from contracts with multiple search engine and information providers, and grantors. Receivables are carried at original invoice amount or accrued based on contractual agreements with each search provider or grantor. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2015 and 2014, management considers all amounts to be fully collectible. Therefore, no allowance has been established.

Mozilla has \$1,871,000 and \$2,213,000 in grants receivable at December 31, 2015 and 2014, respectively.

f. Investments

Investments, which consist of money market funds, marketable equity and debt securities, mutual funds, various government issued securities, commercial paper and hedge funds are stated at fair value. Fair value is based upon quoted market prices for identical assets in active markets or in markets that are not active except for hedge funds. The fair value of hedge funds have been estimated using the net asset value (NAV) per share or ownership interest of the investment. Changes in fair value are recognized on a current basis in the statement of activities and change in net assets.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### g. Fair Value Measurements

Mozilla carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the Foundation reports certain investments using the NAV per share method under the so-called “practical expedient.” The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Mozilla classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value or in accordance with practical expedient NAV rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2: Observable inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, Mozilla performed an analysis of the assets and liabilities that are subject to Financial Accounting Standards Board (FASB) Codification Topic 820.

### h. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated over the estimated useful lives of the related assets, generally one to seven years, using the straight-line method. Leasehold improvements are amortized over the useful life or the term of the lease, whichever is shorter.

### i. Long-Lived Assets

Mozilla evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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j. Recognition of Revenue

Mozilla receives royalty income from contracts with various search engine and information providers. Revenue from these contracts is determined by the search and information providers based upon end user activity or as contractually agreed to. In addition, Mozilla receives royalties from the sale of various products on its website. Mozilla records revenue on the accrual basis of accounting based upon the amounts received.

k. Contributions

Contributions are recorded at fair value when the donor makes an unconditional promise to give. Contributions collected by third parties are recorded as revenue when received by the third party. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Mozilla received \$12,382,000 and \$12,567,000 in contributions during the years ending December 31, 2015 and 2014, respectively, and has \$2,008,000 and \$7,008,000 in conditional promises at December 31, 2015 and 2014, respectively.

l. Software Development Costs

Mozilla develops open source software which is available free of charge to users. In addition, due to the open source nature of the development, there is generally no passage of time between achievement of technological feasibility and the availability for general release. Therefore, Mozilla expenses the cost of software development as incurred.

m. Advertising Costs

Mozilla expenses advertising costs as incurred. Amounts paid in advance of services provided are recorded as a prepaid expense. Advertising and promotional expense for the year ended December 31, 2015 and 2014 amounted to \$29,630,000 and \$7,368,000, respectively.

n. Grants

Grants are recorded when approved by the Board and all significant conditions are met.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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o. Income Taxes

The Foundation qualifies as a public benefit charitable organization exempt from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the California Revenue and Taxation Code. The Foundation provides for tax, if any, on unrelated business income.

The Corporation is a C corporation. Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Differences relate primarily to state taxes, property and equipment, prepaid and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized.

In accordance with the accounting standard on accounting for uncertainty in income taxes, no portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained upon audit by the relevant taxing authority. Also, interest expense, if any, is recognized on the full amount of deferred benefits for uncertain tax positions.

p. Fair Value of Financial Instruments

The carrying value of financial instruments not otherwise disclosed herein, approximates fair value due to the short term nature of these financial instruments.

q. Foreign Currency Translation

The financial statements of the foreign subsidiaries, which have defined their functional currency as their local currency, translate their balance sheet accounts at the exchange rate existing at the balance sheet date, and translate their income statement items at the average exchange rate for the year. The resulting translation adjustments are included in foreign currency exchange gain (loss) in the consolidated statement of activities and change in net assets.

r. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Actual results could differ from those estimates.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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s. Functional Expenses

Expenses are allocated to functional areas based on management's estimates. Fundraising expenses were immaterial. Program services include costs related to furthering the Mozilla open-source project. Grants totaling approximately \$319,000 and \$532,000 are included in program services for 2015 and 2014, respectively.

t. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

u. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This ASU requires that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years beginning after December 15, 2018. The impact of adopting this guidance on subsequent periods has not yet been determined.

On February 25, 2016, FASB issued an ASU 2016-02—*Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their balance sheet for all leases with lease terms of more than twelve months. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. The impact of adopting this guidance on subsequent periods has not yet been determined.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient; rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This guidance is effective for fiscal year ending after December 31, 2017. Early adoption is permitted. Mozilla has adopted this standard as of December 31, 2015.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

### v. Subsequent Events

Mozilla evaluated subsequent events from December 31, 2015 through November 14, 2016, the date these financial statements were available to be issued, and has determined that no adjustments are necessary to the accounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which require disclosure.

### Note 3 - Investments and Fair Value Measurements:

The tables below present assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

<b>2015</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 14,066,000	\$ 14,066,000		
Equities	1,000	1,000		
Mutual funds				
Domestic	10,337,000	6,920,000	\$ 3,417,000	
ETF: Minerals	362,000	362,000		
Municipal bonds	8,147,000		8,147,000	
U.S. Agency funds	42,812,000		42,812,000	
Asset-backed securities	25,810,000		25,810,000	
Corporate debentures/bonds:				
Industrial	40,888,000		40,888,000	
Financial	73,517,000		73,517,000	
Utility	6,577,000		6,577,000	
Total assets measure at fair value	222,517,000	\$ 21,349,000	\$ 201,168,000	
Hedge fund investments measured at net asset value	4,961,000			
<b>Total</b>	<b>\$227,478,000</b>			

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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<b>2014</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 4,075,000	\$ 4,075,000		
Mutual funds				
Domestic	6,782,000	5,845,000	\$ 937,000	
EFT: Minerals	750,000	750,000		
Municipal bonds	2,607,000		2,607,000	
Commercial paper: Financial	2,503,000		2,503,000	
U.S. Agency funds	4,484,000		4,484,000	
Asset-backed securities	20,587,000		20,587,000	
Corporate debentures/bonds:				
Industrial	33,556,000		33,556,000	
Financial	46,077,000		46,077,000	
Utility	11,137,000		11,137,000	
Total assets measure at fair value	132,558,000	\$ 10,670,000	\$ 121,188,000	
Hedge fund investments measured at net asset value	4,847,000			
<b>Total</b>	<b>\$ 137,405,000</b>			

An investment's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There has been no change in the methodology used for December 31, 2015 and 2014.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Mozilla believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## Mozilla Foundation and Subsidiary

### Notes to Consolidated Financial Statements

Mozilla uses NAV to determine the fair value of all the underlying investments which do not have a readily determinable fair value. The following table provides information for investments using NAV to determine fair value as of December 31:

<b>2015</b>	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Global macro fund (a)	1	\$ 1,168,000	Quarterly	90
Event driven fund (b)	3	2,616,000	Monthly/ Quarterly/ Monthly	90/45/30
Long term growth fund (c)	1	454,000	Quarterly	60
Long and short fund (d)	1	723,000	Monthly	60
<b>Total</b>		<b>\$ 4,961,000</b>		

<b>2014</b>	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Global macro fund (a)	1	\$ 1,191,000	Quarterly	90
Event driven fund (b)	1	1,361,000	Monthly	60
Long term growth fund (c)	1	1,057,000	Quarterly	60
Long and short fund (d)	2	1,238,000	Quarterly/ Monthly	60
<b>Total</b>		<b>\$ 4,847,000</b>		

There were no unfunded commitments as of December 31, 2015 and 2014.

- (a) These funds invest in an affiliated Master Fund LPs, whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.
- (b) These funds invest in affiliated Master Fund LPs, whose investment strategy includes global common stock, preferred stock, and convertible debt, futures, forward settlement contracts, short option contracts, swap agreements and various other derivatives.



# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

- (c) This fund invests in an affiliated Master Fund LP, an exempt limited partnership, whose investment universe includes companies with debt-like obligations rated below investment grade, or securities trading at yields comparable to the high yield market.
- (d) These funds invest in affiliated Master Fund LPs, whose objectives are to maximize risk adjusted, absolute returns over the course of various market cycles through a portfolio consisting of long and short equity investments and whose investment strategy combines elements of long and short equities and corporate credit relative value trading.

### Note 4 - Property and Equipment:

Property and equipment as of December 31 are as follows:

	2015	2014	Useful Life (Years)
Computer equipment	\$ 25,192,000	\$ 23,246,000	3
Furniture and office equipment	11,779,000	12,095,000	3 - 7
Leasehold improvements	22,842,000	22,721,000	3 - 5
Software	185,000	232,000	1 - 3
	<hr/>	<hr/>	
	59,998,000	58,294,000	
Less accumulated depreciation	(42,780,000)	(32,790,000)	
	<hr/>	<hr/>	
Net property and equipment	\$ 17,218,000	\$ 25,504,000	

Depreciation and amortization expense totaled \$11,019,000 and \$12,874,000 for the years ended December 31, 2015 and 2014, respectively.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

### Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are restricted for the following purposes at December 31:

	2015	2014
Fellowships: Ford-Mozilla Open Web Program	\$ 3,670,000	\$ 734,000
Education: Mozilla Science Lab	877,000	1,087,000
Education: Digital Skills Observatory	650,000	
Education: Hive	566,000	
Education: Open Badges	507,000	849,000
Fellowships: Knight-Mozilla OpenNews	476,000	495,000
Community: Coral Software Project	139,000	958,000
Education: Webmaker	79,000	359,000
Education: Maker Party Summer Campaign		94,000
Other	154,000	214,000
	<hr/>	<hr/>
	\$ 7,118,000	\$ 4,790,000

Net assets were released from donor restrictions during the year ended December 31, 2015 and 2014 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2015	2014
Education: Open Badges	\$ 342,000	\$ 1,916,000
Education: Hive	1,006,000	1,445,000
Fellowships: Knight-Mozilla OpenNews	1,352,000	1,401,000
Education: Maker Party Summer Campaign	94,000	497,000
Education: Mozilla Science Lab	619,000	470,000
Fellowships: Ford-Mozilla Open Web Program	787,000	216,000
Education: Webmaker	281,000	212,000
Community: Coral Software Project	820,000	89,000
Education: Digital Skills Observatory	23,000	
Other	187,000	175,000
	<hr/>	<hr/>
	\$ 5,511,000	\$ 6,421,000

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

### Note 6 - Income Taxes:

Mozilla's income tax provision (benefit) consists of the following:

	2015			
	Federal	State	Foreign	Total
Current provision				
Foundation	\$ 24,000	\$ 2,000		\$ 26,000
Corporation	28,700,000	618,000	1,431,000	30,749,000
	28,724,000	620,000	1,431,000	30,775,000
Deferred benefit				
Corporation	(1,960,000)	(15,000)	(1,000)	(1,976,000)
<b>Total</b>	<b>\$26,764,000</b>	<b>\$ 605,000</b>	<b>\$1,430,000</b>	<b>\$28,799,000</b>

	2014			
	Federal	State	Foreign	Total
Current (benefit) provision				
Foundation	\$ 6,000			\$ 6,000
Corporation	(655,000)	\$ (1,162,000)	\$2,303,000	486,000
	(649,000)	(1,162,000)	2,303,000	492,000
Deferred provision (benefit)				
Corporation	1,219,000	822,000	(73,000)	1,968,000
<b>Total</b>	<b>\$ 570,000</b>	<b>\$ (340,000)</b>	<b>\$2,230,000</b>	<b>\$ 2,460,000</b>

Deferred taxes are reflected in the statement of financial position as follows:

	2015	2014
Total assets	\$ 3,507,000	\$ 2,388,000
Total liabilities	(2,404,000)	(3,076,000)
	<b>\$ 1,103,000</b>	<b>\$ (688,000)</b>

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

Mozilla has not provided for U.S. deferred taxes on its undistributed earnings for non-U.S. subsidiaries because these earnings are intended to be permanently invested in operations outside the United States.

The activity related to Mozilla's unrecognized tax positions is set forth below:

	Foundation	Corporation	Total
Balance at December 31, 2013		\$ 5,714,000	\$ 5,714,000
Increases related to current tax positions		1,842,000	1,842,000
Decreases related to prior year tax positions		(118,000)	(118,000)
Increases related to prior year tax positions		207,000	207,000
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Balance at December 31, 2014		7,645,000	7,645,000
Increases related to current tax positions		1,273,000	1,273,000
Decreases related to prior year tax positions		(666,000)	(666,000)
Lapse of time restrictions		(812,000)	(812,000)
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Balance at December 31, 2015		\$ 7,440,000	\$ 7,440,000

Mozilla also accrued potential penalties and interest of \$16,000 and \$72,000 related to these unrecognized tax benefits during 2015 and 2014, respectively, and in total, as of December 31, 2015 and 2014, Mozilla has recorded a liability for potential penalties and interest of \$270,000 and \$254,000, respectively. Mozilla recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying statement of activities and change in net assets. Accrued interest and penalties are included within the unrecognized tax benefits line in the statement of financial position. Mozilla does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Mozilla files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Mozilla is generally no longer subject to income tax examination by the U.S. Federal and state taxing authorities for the tax years ending before 2012 and 2011, respectively. In foreign jurisdictions, the 2008 through 2015 tax years generally remain subject to examination by their respective taxing authorities.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### **Note 7 - Employee Benefit Plans:**

The Foundation and the Corporation sponsor defined contribution plans covering substantially all employees in the United States and Canada. The Foundation and the Corporation contribute an amount equal to 3% of the employee's qualified salary plus an additional discretionary 4% of their qualified salary. Contributions to the plans totaled \$6,113,000 and \$6,050,000 for 2015 and 2014, respectively.

For certain other foreign operations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled \$1,984,000 and \$2,100,000 for 2015 and 2014, respectively.

The Corporation maintains a Long Term Incentive Plan whereby a Board committee annually approves the participants and amount. Expenses of approximately \$3,409,000 and \$2,775,000 were recorded in 2015 and 2014, respectively.

### **Note 8 - Concentrations of Risk:**

Mozilla entered into a contract with a search engine provider for royalties which expired in November 2014. In December 2014, Mozilla entered into a contract with another search engine provider for royalties which expires December 2019.

Approximately 90% of Mozilla's royalty revenues were derived from these contracts for 2015 and 2014 with receivables from these contracts representing approximately 75% and 77% of the December 31, 2015 and 2014 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and cash equivalents and investments. At December 31, 2015 and 2014, essentially all of the cash and cash equivalents are in excess of the federally insured limits. In addition, investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address these risks, Mozilla maintains an investment policy that sets out performance criteria, investment, and asset allocation guidelines, and actively manages the investments to these policies.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

At December 31, 2015 and 2014, the consolidated financial statements include the following amounts of assets, liabilities and foreign currency transaction gains and losses relating to subsidiaries and branches outside the United States of America:

	2015	2014
Assets:		
Europe	\$ 11,392,000	\$ 10,279,000
Asia	14,099,000	8,704,000
North America	5,435,000	6,697,000
Australia and Oceanic	1,302,000	1,313,000
	<hr/>	<hr/>
	\$ 32,228,000	\$ 26,993,000
Liabilities:		
Europe	\$ 4,186,000	\$ 4,979,000
Asia	1,516,000	1,555,000
North America	4,653,000	4,774,000
Australia and Oceanic	590,000	594,000
	<hr/>	<hr/>
	\$ 10,945,000	11,902,000
Foreign currency transaction loss, net	\$ (6,012,000)	\$ (5,691,000)

### Note 9 - Commitments:

Mozilla leases office spaces under leases which expire through September 2021. Some leases have options to renew and certain leases are guaranteed by letters of credit. Rent expense for 2015 and 2014 totaled \$9,325,000 and \$9,891,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses:

Year Ended	
2016	\$ 8,649,000
2017	7,348,000
2018	6,378,000
2019	4,007,000
2020	4,110,000
Thereafter	1,108,000
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Total scheduled payments	\$ 31,600,000

# **Mozilla Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

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### **Note 10 - Related Party Transactions:**

The Corporation pays the Foundation two percent (2%) of its annual net revenues related to the use of the trademarks less approved expenses of the preceding year in license fees per a license agreement. The Corporation paid \$6,467,000 and \$6,121,000 to the Foundation in 2015 and 2014, respectively.

The Corporation provides basic administrative services, IT support and legal services under a service agreement between the Corporation and the Foundation.

As noted in Note 2b, all significant intercompany transactions have been eliminated in the preparation of these consolidated financial statements.