MOZILLA FOUNDATION AND SUBSIDIARIES

DECEMBER 31, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Mozilla Foundation and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
MOZILLA FOUNDATION
Mountain View, California

We have audited the accompanying consolidated statement of financial position of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)** as of December 31, 2010 and 2009 and the related consolidated statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of Mozilla's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mozilla Foundation and Subsidiaries as of December 31, 2010 and 2009, and the change in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

August 1, 2011

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Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position
(In thousands)

December 31,		2010		2009
Assets				
Cash and cash equivalents	$	34,890	$	31,734
Receivables		15,956		12,211
Prepaid expenses		939		810
Prepaid income taxes		3,985		56
Investments		105,680		91,296
Deferred taxes				1,679
Furniture and equipment, net		6,894		4,912
Deposits		459		423
Total assets	$	168,803	$	143,121
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	$	8,446	$	5,196
Income taxes payable				321
Deferred taxes		808		
Deferred revenue				300
Unrecognized income tax benefits		12,467		16,695
Total liabilities		21,721		22,512
Net Assets:				
Unrestricted		145,968		120,436
Temporarily restricted		1,114		173
Total net assets		147,082		120,609
Total liabilities and net assets	$	168,803	$	143,121

The accompanying notes are an integral part of this statement.

Mozilla Foundation and Subsidiaries

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

Years Ended December 31,	2010	2009
Unrestricted Net Assets:		
Revenues and other support:		
Royalties	$ 121,109	$ 101,537
Interest and dividend income	934	1,034
Net realized and unrealized loss from investments	1,200	(104)
Foreign currency exchange gain (loss)	(449)	1,814
Loss on sale of assets	(1)	(81)
Contributions	150	50
Net assets released from restrictions	263	55
Total unrestricted revenue and support	123,206	104,305
Expenses:		
Program:		
Program services	2,493	1,007
Software development	62,842	40,206
Support:		
Branding and marketing	9,843	7,336
General and administrative	12,170	12,609
Total expenses	87,348	61,158
Change in Unrestricted Net Assets before Provision for Income Taxes	35,858	43,147
Provision for income taxes	10,326	17,091
Change in Unrestricted Net Assets	25,532	26,056
Change in Temporarily Restricted Net Assets:		
Contributions	1,204	173
Net assets released from restriction	(263)	(55)
Change in Temporarily Restricted Net Assets	941	118
Change in Net Assets	26,473	26,174
Net Assets - beginning of year	120,609	94,435
Net Assets - end of year	$ 147,082	$ 120,609

The accompanying notes are an integral part of this statement.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows
(In thousands)

Years Ended December 31,	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	$ 26,473	$ 26,174
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	2,932	1,780
Net realized and unrealized loss on investments	(1,200)	104
Foreign currency exchange (gain) loss	449	(1,814)
Unrecognized income tax benefits	(4,228)	(478)
Change in deferred taxes	2,487	79
Loss on sale of assets	1	81
Changes in assets and liabilities:		
Receivables	(3,745)	(3,026)
Prepaids	(129)	1,566
Deposits	(36)	118
Accounts payable and accrued expenses	3,250	1,302
Income taxes payable / prepaid income taxes	(4,250)	299
Deferred revenue	(300)	300
Net cash provided by operating activities	21,704	26,485
Cash Flows from Investing Activities:		
Purchases of furniture and equipment	(4,909)	(4,861)
Purchases of investments	(65,509)	(115,160)
Proceeds from sale of investments	51,812	102,422
Net cash used by investing activities	(18,606)	(17,599)
Effect of Exchange Rate Changes on Cash	58	1,853
Net Increase in Cash and Cash Equivalents	3,156	10,739
Cash and Cash Equivalents - Beginning of year	31,734	20,995
Cash and Cash Equivalents - End of year	$ 34,890	$ 31,734

Supplemental Disclosure:		
Cash paid for income taxes	$ 15,964	$ 16,218

The accompanying notes are an integral part of this statement.

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 provide organizational, legal, and financial support for the Mozilla open-source software project. The Foundation's purpose is to develop open source, standards compliant, free Internet applications that will be useable free of charge to tens of millions of users. In addition, its purpose is to develop foundational technologies that will be used by content and software developers to develop standards compliant online content and open source internet software.

The Foundation has two wholly-owned for-profit subsidiaries, Mozilla Corporation (the Corporation) and Mozilla Messaging. The Corporation serves the non-profit, public benefit goals of its parent and is responsible for product development, marketing and distribution of Mozilla products. The Corporation has wholly-owned subsidiaries in China, Denmark, Canada and New Zealand to further its mission in those locations.

Mozilla Messaging (Messaging) furthers the goals of its parent by organizing the development and marketing of free, open source email and messaging products and technologies. Mozilla Messaging operates out of Canada.

Mozilla Japan is an independent organization contracted by the Corporation to provide marketing and development services and promote the use of Mozilla products in its geographic regions. Mozilla Japan has been granted the right to use the Mozilla name by the Foundation. Neither the Foundation nor the Corporation has any controlling interest in Mozilla Japan.

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.

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation, the Corporation and Messaging (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.

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 the Foundation in accordance with temporary donor imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation 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. The Foundation does not have any permanently restricted net assets.

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 are carried at original invoice amount. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2010 and 2009, management has deemed all amounts to be fully collectible. Therefore, no allowance has been deemed necessary for any receivables.

The Foundation has $935,000 and $5,000 in grants receivable at December 31, 2010 and 2009, respectively.

f. Investments

Investments, which consist of money market funds, marketable equity and debt securities, mutual funds, various government issued securities, and deposits with original maturities of 12 months or less, are stated at fair value, based upon quoted market prices. Changes in fair value are recognized on a current basis in the statement of activities and change in net assets. Alternative investments include various hedge funds. The fair values of these investments have been estimated using the net asset value per share or ownership interest of the investment.

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. 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.

Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

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 FASB Codification Topic 820. Any assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

h. Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated over the estimated useful lives of the related assets, generally three 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. Recognition of Revenue

Mozilla receives royalty income from contracts with various search engine and information providers, including Amazon’s affiliates program. Revenue from these contracts is determined by the search engine and information provider based upon its activity. In addition, Mozilla receives royalties from the sale of various products on its website. Mozilla records revenue based upon the amounts received, with the revenue recorded on the accrual basis.

j. 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, 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 to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The Foundation has $1,775,000 in conditional promises to receive at December 31, 2010.

k. 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.

l. Advertising Costs

Mozilla expenses advertising costs as incurred. Advertising and promotional expense for the year ended December 31, 2010 and 2009, amounted to $1,709,000 and $841,000, respectively.

m. Grants

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

n. 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. See Note 11 for further discussion. The Foundation provides for tax, if any, on unrelated business income.

The Corporation and Messaging are both C corporations. 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. The differences relate primarily to state taxes, foreign income, 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.

Mozilla follows the accounting standard on accounting for uncertainty in income taxes, whereby the impact of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained. Also, under the standards, interest expense is recognized on the full amount of deferred benefits for uncertain tax positions.

o. 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.

p. 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 as other revenue and support in the consolidated statement of activities and change in net assets.

q. Use of Estimates

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

r. Functional Expenses

Expenses are allocated to functional areas based on management's estimates. There were no direct fundraising expenses incurred and the incidental expenses, such as the website, were immaterial. Program services include costs related to furthering the Mozilla open-source project. Grants totaling $49,000 and $136,000 are included in program services for 2010 and 2009, respectively.

s. Reclassifications

Certain 2009 amounts have been reclassified to be consistent with the 2010 presentation. There was no effect on net assets or changes in net assets as a result of these reclassifications.

t. Recent Accounting Pronouncements

Adopted:

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurement and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The ASU requires new fair value measurement disclosures about transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements (purchases, sales, issuances, and settlements on a gross basis). The update also clarifies existing disclosures about the level of disaggregation and about inputs and valuation techniques. Mozilla adopted the update as of January 1, 2010.

Pronouncements effective in the future:

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The update supersedes most of the guidance in Accounting Standards Codification Topic 820 to align with IFRS 13. It also reflects FASB's consideration of the different characteristics of public and nonpublic entities and the needs of users of their financial statements. Nonpublic entities will be exempt from a number of the new disclosure requirements. The amendments in ASU 2011-04 change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Those that clarify the board's intent about the application of existing fair value measurement and disclosure requirements; and

2. Those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

The amendments in ASU 2011-04 must be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Nonpublic entities may apply the amendments early, but no earlier than for interim periods beginning after December 15, 2011. Mozilla is currently evaluating the effect of this pronouncement.

u. Subsequent Events

Mozilla evaluated subsequent events through August 1, 2011, the date these financial statements were available to be issued. With the exception of those matters discussed in Notes 12 and 13, there were no material subsequent events that required recognition.

Note 3 - Investments:

At December 31, 2010 and 2009 investments consist of the following:

	2010	2009
Money market funds	$ 12,143,000	$ 23,763,000
Mutual funds - fixed income	6,000,000	3,451,000
Government bonds	3,676,000	3,195,000
Commercial paper	20,691,000	6,792,000
US Agency bonds	31,161,000	20,250,000
Municipal bonds	2,577,000	4,900,000
Mortgage and asset-backed securities	1,517,000	2,078,000
Corporate debentures/bonds	24,662,000	18,656,000
Certificates of deposit		5,106,000
Hedge funds	3,253,000	3,105,000
	$105,680,000	$ 91,296,000

Note 4 - Fair Value Measurements:

The table below present assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2010 and 2009:

2010	Total	Level 1	Level 2	Level 3
Money market funds	$ 12,143,000	$ 9,933,000	$ 2,210,000	
Mutual funds - fixed income	6,000,000	6,000,000		
Government bonds	3,676,000		3,676,000	
Commercial paper	20,691,000		20,691,000	
U.S. Agency funds	31,160,001	12,459,000	18,702,000	
Municipal bonds	2,577,000		2,577,000	
Mortgage and asset-backed securities	1,517,000		1,517,000	
Corporate debentures/bonds	24,662,000		24,662,000	
Hedge funds	3,253,000		2,207,000	$1,046,000
	$105,680,000	$28,392,000	$76,242,000	$1,046,000

2009	Total	Level 1	Level 2	Level 3
Money market funds	$ 23,763,000	$23,338,000	$ 425,000	
Mutual funds - fixed income	3,451,000	3,451,000		
Government bonds	3,195,000		3,195,000	
Commercial paper	6,792,000		6,792,000	
U.S. Agency funds	20,250,000	16,999,000	3,251,000	
Municipal bonds	4,900,000		4,900,000	
Mortgage and asset-backed securities	2,078,000		2,078,000	
Corporate debentures/bonds	18,656,000		18,656,000	
Certificates of deposit	5,106,000		5,106,000	
Hedge funds	3,105,000		2,067,000	$1,038,000
	$ 91,296,000	$43,788,000	$46,470,000	$1,038,000

The changes in investments classified as Level 3 are as follows for the year ended December 31, 2010 and 2009:

Balance, January 1, 2010	$1,038,000
Net realized and unrealized gains	8,000
Balance, December 31, 2010	$1,046,000
Balance, January 1, 2009	
Purchases	$1,000,000
Net realized and unrealized gains	38,000
Balance, December 31, 2009	$1,038,000

The following table provides information for investments which do not have readily determinable fair market values as of December 31, 2010 and 2009:

2010	# of Funds	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,111,000	0	monthly	60
Global macro fund (b)	1	1,046,000	0	quarterly	90
Managed futures funds (c)	2	1,096,000	0	monthly	10
Total		$3,253,000			

2009	# of Funds	Fair Value (000's)	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,050,000	0	monthly	60
Global macro fund (b)	1	1,038,000	0	quarterly	90
Managed futures funds (c)	2	1,017,000	0	monthly	10
Total		$3,105,000			

(a) This fund invests in an affiliated Master Fund LP, an exempt limited partnership 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.

(b) This fund invests in an affiliated Master Fund, an exempt limited liability company whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk. Redemptions are permitted after May 1, 2010.

(c) These funds seek medium term capital growth directly and indirectly, of physical commodities, futures contracts, spot and forward contracts, options on the foregoing, exchanges of futures for physical transactions and other investments on domestic and international exchanges and markets (including the interbank and over the counter (OTC) markets).

Note 5 - Furniture and Equipment:

Furniture and equipment as of December 31, 2010 and 2009 are as follows:

	2010	2009	Useful Life (Years)
Computer equipment	$ 8,945,000	$ 5,412,000	3
Furniture and office equipment	2,021,000	1,841,000	5 - 7
Leasehold improvements	2,418,000	1,470,000	4
Software	770,000	525,000	3
	14,154,000	9,248,000	
Less accumulated depreciation	(7,260,000)	(4,336,000)	
Net furniture and equipment	$ 6,894,000	$ 4,912,000	

Depreciation and amortization expense totaled $2,932,000 and $1,736,000 for the years ended December 31, 2010 and 2009, respectively.

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are restricted for the following purposes at December 31, 2010 and 2009:

	2010	2009
Fellowships	$ 725,000	
Drumbeat program	192,000	
Web made movie project	75,000	
Open video project	60,000	
Jetpack learning project	20,000	$ 140,000
Accessibility project	12,000	11,000
Other	30,000	22,000
	$ 1,114,000	$ 173,000

Net assets were released from donor restrictions during the year ended December 31, 2010 and 2009 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2010	2009
Drumbeat program	$ 22,000	
Open video project	76,000	
Jetpack learning project	120,000	
Accessibility project		$ 45,000
Other	45,000	10,000
	$ 263,000	$ 55,000

Note 7 - Income Taxes:

Mozilla's income tax provision consists of the following:

	2010			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ (3,019,000)	$ (1,061,000)		$ (4,080,000)
Corporation	13,896,000	(3,046,000)	$ 1,005,000	11,855,000
Messaging		1,000	25,000	26,000
	10,877,000	(4,106,000)	1,030,000	7,801,000
Deferred provision				
Foundation				-
Corporation	2,338,000	4,000	183,000	2,525,000
Messaging				-
	2,338,000	4,000	183,000	2,525,000
Total	$13,215,000	$ (4,102,000)	$ 1,213,000	$10,326,000

	2009			
	Federal	State	Foreign	Total
Current provision				
Foundation	$ 544,000	$ 147,000		$ 691,000
Corporation	13,115,000	2,702,000	$ 566,000	16,383,000
Messaging				-
	13,659,000	2,849,000	566,000	17,074,000
Deferred (benefit) provision				
Foundation				-
Corporation	(35,000)	10,000	42,000	17,000
Messaging				-
	(35,000)	10,000	42,000	17,000
Total	$ 13,624,000	$ 2,859,000	$ 608,000	$17,091,000

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

	2010	2009
Total assets	$ 1,140,000	$ 1,952,000
Total liabilities	(1,948,000)	(273,000)
	$ (808,000)	$ 1,679,000

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 benefits is set forth below:

	Foundation	Corporation	Messaging	Total
Balance at January 1, 2009	$ 15,465,000	$1,708,000		$ 17,173,000
Increases related to current tax positions				-
Increases related to prior year tax positions	632,000			632,000
Reductions related to prior year tax positions		(376,000)		(376,000)
Settlements		(734,000)		(734,000)
Balance at December 31, 2009	$ 16,097,000	$ 598,000	$ -	$ 16,695,000
Increases related to current tax positions				-
Increases related to prior year tax positions	440,000			440,000
Reductions related to prior year tax positions		(11,000)		(11,000)
Settlements	(4,542,000)	(115,000)		(4,657,000)
Balance at December 31, 2010	$ 11,995,000	$ 472,000	$ -	$ 12,467,000

Mozilla also accrued potential penalties and interest of $166,000 and $659,000 related to these unrecognized tax benefits during 2010 and 2009, respectively, and in total, as of December 31, 2010 and 2009, Mozilla has recorded a liability for potential penalties and interest of $3,162,000 and $3,037,000, 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 files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. All tax years generally remain subject to examination by federal and most state tax authorities. In foreign jurisdictions, all tax years generally remain subject to examination by their respective tax authorities.

The Internal Revenue Service (IRS) has examined the Corporation's income tax returns for 2005 through 2007. The Corporation has effectively settled with the IRS for all years audit with no material changes to the corporation's tax returns.

The IRS has examined the Foundation's federal tax returns for the years 2004 through 2007, and has accepted tax returns related to year 2006 through 2007 as filed. As a result of the progress in the Foundation examination, the Foundation recognized $4,542,000 of income tax benefits. See Note 12 for further discussion of open years. Mozilla does not expect the remaining examinations to be completed within the next twelve months. Therefore Mozilla does not anticipate any significant change to its unrecognized tax benefit balance in 2011.

Note 8 - Retirement Plan:

The Foundation and the Corporation have defined contribution plans covering substantially all employees. The Foundation and the Corporation contribute an amount equal to 3% of the employee's qualified salary plus an additional discretionary percentage of their qualified salary. Contributions to the plans totaled $2,062,000 and $1,538,000 for 2010 and 2009, respectively.

Note 9 - Concentrations of Risk:

The Corporation has a contract with a search engine provider for royalties which expires November 2011. Approximately 84% and 86% of royalty revenue for 2010 and 2009, respectively, was derived from this contract. The receivable from this search engine provider represented 64% and 71% of the December 31, 2010 and 2009 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and investments. At December 31, 2010, essentially all of the cash and investments 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.

At December 31, 2010 and 2009, 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:

	2010	2009
Assets:		
Europe	$ 12,366,000	$ 8,392,000
Asia	1,737,000	1,205,000
North America	1,103,000	1,684,000
New Zealand	450,000	281,000
	$ 15,656,000	$ 11,562,000
Liabilities:		
Europe	$ 953,000	$ 750,000
Asia	42,000	46,000
North America	758,000	692,000
New Zealand	221,000	136,000
	$ 1,974,000	$ 1,624,000
Foreign currency transaction gain (loss), net	$ (467,000)	$ 1,814,000

Note 10 - Commitments:

The Corporation leases office space under leases which expire through June 2018. The Corporation provides space to the Foundation at no charge. Rent expense for 2010 and 2009 totaled $3,082,000 and $2,358,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses:

Year Ended,	
2011	$ 4,503,000
2012	5,413,000
2013	5,388,000
2014	2,257,000
2015	1,579,000
Thereafter	2,428,000
	$ 21,568,000

Note 11 - Related Party Transactions:

The Corporation pays an annual licensing fee in the amount of $10,000 to the Foundation for use of the Mozilla name.

The Corporation allows various Foundation employees to use its offices on their respective visits to the Mountain View headquarters.

The Corporation and Messaging have a consulting agreement whereby the Corporation will pay up to $2,000,000 to transition the Mozilla email application to Messaging. The Corporation paid $2,121,000 and $1,600,000 during 2010 and 2009, respectively, and has a balance owing to Messaging of $1,000 and $567,000, during 2010 and 2009, respectively.

Messaging has entered into a service agreement with the Corporation whereby Messaging will pay $50,000 per year for accounting and administrative services and $20,000 per year for basic IT and hosting services.

On February 10, 2010, the Corporation’s Board of Directors approved a $10,000,000 loan facility to Mozilla Messaging, bearing interest at 5% with an initial drawdown of $500,000 and subsequent draws in $250,000 increments. There were no draws against this facility during 2010 and the loan was canceled in early 2011.

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

Note 12 - Contingencies:

The IRS began an examination of Mozilla Foundation's 2004 and 2005 tax years in late 2007 and in early 2009 the IRS expanded its investigation to include tax years 2006 and 2007.

The Foundation has received an official letter dated May 13, 2011 confirming the IRS's acceptance of all Form 990 returns as filed for all tax years under audit (2004-2007). This is commonly referred to as an IRS "No Change Letter" and signifies no changes were made as a result of the examination for any of the years under audit, indicating that the IRS has accepted those forms’ classification of the Foundation as a public charity described in sections 501(c)(3) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

There is only one remaining audit issue the IRS continues to challenge, related to the Foundation's tax treatment of its 2004 and 2005 search related revenue on its Form 990-T filings for those years. The case has been forwarded to IRS Appeals and assigned to an appeals agent, who expects to begin processing the appeal sometime in 2011.

Note 13 - Subsequent Events:

On February 9, 2011**,** the Foundation's Board of Directors concluded that Messaging should not continue as a separate organization and that its activities should be taken over by the Corporation, and authorized further study as to how best to accomplish that result. On May 31, 2011, after the contribution of the shares of Mozilla Messaging to Mozilla Corporation, Mozilla Messaging dissolved and distributed its assets to its sole shareholder, Mozilla Corporation.