MOZILLA FOUNDATION
AND SUBSIDIARIES

DECEMBER 31, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Mozilla Foundation and Subsidiaries

Independent Auditors' Report
and Consolidated Financial Statements

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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, 2011 and 2010 and the related consolidated statements of activities and change in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Mozilla's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of foreign subsidiaries operating in China and Europe, whose statements reflect total assets of $17,503,000 and $14,103,000 and total liabilities of $13,605,000 and $995,000 as of December 31, 2011 and 2010, respectively, and change in net assets of $595,000 and $993,000 for the years ending December 31, 2011 and 2010, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the foreign subsidiaries operating in China and Europe, is based solely on the report of the other auditors.

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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mozilla Foundation and Subsidiaries as of December 31, 2011 and 2010, 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

San Jose, California
October 15, 2012

CELEBRATING 1234567890 YEARS AND STILL COUNTING

Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position
(In thousands)

December 31,	2011	2010
Assets		
Cash and cash equivalents	$ 39,757	$ 34,890
Receivables	29,576	15,956
Prepaid expenses	2,015	939
Prepaid income taxes	5,191	3,985
Investments	103,320	105,680
Furniture and equipment, net	13,006	6,894
Other assets	1,105	459
Total assets	$ 193,970	$ 168,803
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 7,210	$ 2,923
Accrued liabilities	11,545	5,523
Deferred taxes	1,024	808
Deferred revenue	148	
Unrecognized income tax benefits	3,387	12,467
Total liabilities	23,314	21,721
Net Assets:		
Unrestricted	167,636	145,968
Temporarily restricted	3,020	1,114
Total net assets	170,656	147,082
Total liabilities and net assets	$ 193,970	$ 168,803

The accompanying notes are an integral part of these statements

Mozilla Foundation and Subsidiaries

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

Years Ended December 31,	2011	2010
Unrestricted Net Assets:		
Revenues and other support:		
Royalties	$ 161,904	$ 121,109
Interest and dividend income	1,007	934
Net realized and unrealized (loss) gain from investments	(237)	1,200
Contributions	448	150
Foreign currency exchange loss	(550)	(449)
Loss on sale of assets	(19)	(1)
Net assets released from restrictions	921	263
Total unrestricted revenue and support	163,474	123,206
Expenses:		
Program:		
Program services	4,259	2,493
Software development	103,133	62,842
Support:		
Branding and marketing	17,531	9,843
General and administrative	19,761	12,170
Other expenses	800	
Total expenses	145,484	87,348
Change in Unrestricted Net Assets before Provision (Benefit) for Income Taxes	17,990	35,858
Provision (benefit) for income taxes	(3,678)	10,326
Change in Unrestricted Net Assets	21,668	25,532
Change in Temporarily Restricted Net Assets:		
Contributions	2,827	1,204
Net assets released from restriction	(921)	(263)
Change in Temporarily Restricted Net Assets	1,906	941
Change in Net Assets	23,574	26,473
Net Assets - beginning of year	147,082	120,609
Net Assets - end of year	$ 170,656	$ 147,082

The accompanying notes are an integral part of these statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows
(In thousands)

Years Ended December 31,	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	$ 23,574	$ 26,473
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	3,926	2,932
Net realized and unrealized (gain) loss on investments	237	(1,200)
Foreign currency exchange loss	550	449
Unrecognized income tax benefits	(9,080)	(4,228)
Change in deferred taxes	216	2,487
Loss on sale of assets	19	1
Changes in assets and liabilities:		
Receivables	(13,620)	(3,745)
Prepaid expenses	(1,070)	(129)
Other assets	(646)	(36)
Accounts payable and accrued expenses	10,309	3,250
Prepaid income taxes	(1,206)	(4,250)
Deferred revenue	142	(300)
Net cash provided by operating activities	13,351	21,704
Cash Flows from Investing Activities:		
Purchases of property and equipment	(10,054)	(4,909)
Purchases of investments	(51,029)	(65,509)
Proceeds from sale of investments	52,988	51,812
Net cash used by investing activities	(8,095)	(18,606)
Effect of Exchange Rate Changes on Cash	(389)	58
Net Increase in Cash and Cash Equivalents	4,867	3,156
Cash and Cash Equivalents - Beginning of year	34,890	31,734
Cash and Cash Equivalents - End of year	$ 39,757	$ 34,890
Supplemental Disclosure:		
Cash paid for income taxes	$ 8,038	$ 15,964

The accompanying notes are an integral part of these statements.

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 a wholly-owned for-profit subsidiary, Mozilla Corporation (the Corporation). 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 operating in China, Europe, Canada, New Zealand, Australia and Taiwan to further its mission in those locations.

Mozilla Messaging (Messaging), a wholly-owned for-profit subsidiary was dissolved on May 31, 2011 and its assets distributed to its sole stockholder, the Corporation, after the contribution of Messaging shares to the Corporation.

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 and the Corporation and Messaging through its date of dissolution (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 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.

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 or accrued based on contractual agreements with each search provider. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2011 and 2010, management has deemed all amounts to be fully collectible. Therefore, no allowance has been deemed necessary for any receivables.

Mozilla has $123,000 and $935,000 in grants receivable at December 31, 2011 and 2010, respectively.

f. Investments

Investments, which consist of money market funds, marketable equity and debt securities, mutual funds, various government issued securities, and commercial paper 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 Financial Accounting Standard Board (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. 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. 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. 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 an 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 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 has $1,316,000 and $1,775,000 in conditional promises at December 31, 2011 and 2010, respectively.

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, 2011 and 2010 amounted to $1,887,000 and $1,709,000, 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. 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, if any, 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 accounting principles generally accepted in the United States of America 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 were immaterial. Program services include costs related to furthering the Mozilla open-source project. Grants totaling approximately $406,000 and $119,000 are included in program services for 2011 and 2010, respectively.

s. Reclassifications

Certain 2010 amounts have been reclassified to be consistent with the 2011 presentation. There was no effect on net assets or changes in net assets as a result of these reclassifications.

t. Recent Accounting Pronouncements

Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. Mozilla is currently evaluating the impact of adoption on its consolidated financial statements.

u. Subsequent Events

Mozilla evaluated subsequent events through October 15, 2012, the date these financial statements were available to be issued. With the exception of those matters discussed in Notes 6 and 11, there were no material subsequent events that required recognition.

Note 3 - Investments and Fair Value Measurements:

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

2011	Total	Level 1	Level 2	Level 3
Money market funds	$ 22,035,000	$21,332,000	$ 703,000	
Mutual funds - fixed income:				
Domestic	5,931,000	5,931,000		
International	679,000	679,000		
Government bonds	4,519,000		4,519,000	
Commercial paper:				
Financial	10,743,000		10,743,000	
U.S. Agency funds	26,150,000	13,021,000	13,129,000	
Municipal bonds	6,872,000		6,872,000	
Mortgage and asset-backed securities	1,133,000		1,133,000	
Corporate debentures/bonds:				
Industrial	6,162,000		6,162,000	
Financial	15,874,000		15,874,000	
Hedge funds	3,222,000		2,055,000	$1,167,000
	$103,320,000	$40,963,000	$61,190,000	$1,167,000

2010	Total	Level 1	Level 2	Level 3
Money market funds	$ 12,143,000	$ 9,933,000	$ 2,210,000	
Mutual funds - fixed income:				
Domestic	798,000	798,000		
International	5,202,000	5,202,000		
Government bonds	3,676,000		3,676,000	
Commercial paper:				
Industrial	1,791,000		1,791,000	
Financial	18,892,000		18,892,000	
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:				
Industrial	8,176,000		8,176,000	
Financial	10,901,000		10,901,000	
Government	5,585,000		5,585,000	
Hedge funds	3,253,000		2,207,000	$1,046,000
	$105,680,000	$28,392,000	$76,242,000	$1,046,000

The changes in investments classified as Level 3 are as follows:

Balance, January 1, 2010	$1,038,000
Unrealized gains	8,000
Balance, December 31, 2010	$1,046,000
Unrealized gains	121,000
Balance, December 31, 2011	$1,167,000

An investments 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 and December 31, 2011 and 2010.

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.

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

2011	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,049,000	monthly	60
Global macro fund (b)	1	1,167,000	quarterly	90
Managed futures funds (c)	2	1,006,000	monthly	10
Total		$3,222,000		

2010	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,111,000	monthly	60
Global macro fund (b)	1	1,046,000	quarterly	90
Managed futures funds (c)	2	1,096,000	monthly	10
Total		$3,253,000		

There were no unfunded commitments as of December 31, 2011 and 2010.

(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 4 - Property and Equipment:

Property and equipment as of December 31 are as follows:

	2011	2010	Useful Life (Years)
Computer equipment	$12,420,000	$ 8,945,000	3
Furniture and office equipment	4,235,000	2,021,000	3 - 7
Leasehold improvements	5,445,000	2,418,000	3 - 4
Software	800,000	770,000	1 - 3
	22,900,000	14,154,000	
Less accumulated depreciation	(9,894,000)	(7,260,000)	
Net property and equipment	$13,006,000	$ 6,894,000	

Depreciation and amortization expense totaled $3,926,000 and $2,932,000 for the years ended December 31, 2011 and 2010, respectively.

Note 5 - Temporarily Restricted Net Assets:

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

	2011	2010
Fellowships	$ 1,248,000	$ 725,000
Webmaker (Drumbeat) program	280,000	192,000
Web made movie project		75,000
Open video project		60,000
Hive project	533,000	
Badges project	892,000	
Other	67,000	62,000
	$ 3,020,000	$ 1,114,000

Net assets were released from donor restrictions during the year ended December 31, 2011 and 2010 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2011	2010
Fellowships	$ 402,000	
Web made movie project	115,000	
Open video project	50,000	$ 76,000
Jetpack learning project		120,000
Hive project	165,000	
US ignite project	60,000	
Badges project	109,000	
Other	21,000	67,000
	$ 921,000	$ 263,000

Note 6 - Income Taxes:

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

	2011			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ (7,762,000)	$ (2,227,000)		$ (9,989,000)
Corporation	4,739,000	321,000	$ 1,043,000	6,103,000
	(3,023,000)	(1,906,000)	1,043,000	(3,886,000)
Deferred provision (benefit)				
Corporation	746,000	(596,000)	58,000	208,000
	746,000	(596,000)	58,000	208,000
Total	$ (2,277,000)	$ (2,502,000)	$ 1,101,000	$ (3,678,000)

	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				
Corporation	2,338,000	4,000	183,000	2,525,000
	2,338,000	4,000	183,000	2,525,000
Total	$13,215,000	$ (4,102,000)	$1,213,000	$10,326,000

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

	2011	2010
Total assets	$ 2,782,000	$ 1,140,000
Total liabilities	(3,806,000)	(1,948,000)
	$ (1,024,000)	$ (808,000)

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	Total
Balance at December 31, 2009	$ 16,097,000	$ 598,000	$ 16,695,000
Increases related to prior year tax positions	440,000		440,000
Settlements (Note 11)	(4,542,000)	(115,000)	(4,657,000)
Lapse of time restrictions		(11,000)	(11,000)
Balance at December 31, 2010	11,995,000	472,000	12,467,000
Increases related to current tax positions		292,000	292,000
Increases related to prior year tax positions		887,000	887,000
Reductions related to prior year tax positions		(58,000)	(58,000)
Settlements (Note 11)	(9,995,000)	(89,000)	(10,084,000)
Lapse of time restrictions		(117,000)	(117,000)
Balance at December 31, 2011	$ 2,000,000	$ 1,387,000	$ 3,387,000

Mozilla also accrued potential penalties and interest of $5,000 and $166,000 related to these unrecognized tax benefits during 2011 and 2010, respectively, and in total, as of December 31, 2011 and 2010, Mozilla has recorded a liability for potential penalties and interest of $590,000 and $3,162,000, 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. Tax years after 2007 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.

On June 29, 2012, the Foundation closed all items under IRS audit with a settlement payment of $1.5 million which represents less than 10% of the original $16 million liability accrued for this matter.

In 2012, Mozilla was informed by the IRS that it will be examining the Corporation's income tax returns for 2009 and 2010.

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 $9,989,000 of income tax benefits. See Note 11 for further discussion of open years.

Note 7 - Retirement Plan:

The Foundation and the Corporation have 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 percentage of their qualified salary. Contributions to the plans totaled $2,831,000 and $1,768 000 for 2011 and 2010, respectively.

Note 8 - Concentrations of Risk:

Mozilla entered into a contract with a search engine provider for royalties which expires November 2014. The previous contract term expired in November 2011. Approximately 85% and 84% of royalty revenue for 2011 and 2010, respectively, was derived from this contract. The receivable from this search engine provider represented 77% and 64% of the December 31, 2011 and 2010 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, 2011, essentially all of the cash and cash equivalents 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, and actively manages the investments to these policies.

At December 31, 2011 and 2010, 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:

	2011	2010
Assets:		
Europe	$ 14,534,000	$ 12,366,000
Asia	3,839,000	1,737,000
North America	2,873,000	1,103,000
Australia and Oceanic	769,000	450,000
	$ 22,015,000	$ 15,656,000
Liabilities:		
Europe	$ 13,396,000	$ 953,000
Asia	257,000	42,000
North America	2,262,000	758,000
Australia and Oceanic	242,000	221,000
	$ 16,157,000	$ 1,974,000
Foreign currency transaction gain (loss), net	$ (550,000)	$ (467,000)

Note 9 - Commitments:

Mozilla leases office space under leases which expire through June 2018. Some leases have options to renew and one is collateralized by an unconditional, irrevocable, transferable, letter of credit. Rent expense for 2011 and 2010 totaled $4,823,000 and $3,082,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses:

Year Ended,	
2012	$ 6,326,000
2013	6,675,000
2014	3,567,000
2015	2,896,000
2016	2,171,000
Thereafter	1,789,000
	$ 23,424,000

Note 10 - 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.

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

Subsequent to year end, Mozilla Corporation intends to pay a $2.5 million dividend to Mozilla Foundation, its stockholder of record.

Note 11 - 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.

On April 13, 2012, the Foundation received an official letter representing $1.5 million settlement of the IRS 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. There was no search related revenue reported on Form 990-T filings after 2005. As a result, unrecognized income tax benefits were reduced to $2 million, the approximate amount of the settlement, including interest.

On June 29, 2012, the Foundation closed all items under IRS audit with a settlement payment of $1.5 million which represents less than 10% of the original $16 million liability accrued for this matter.