

MOZILLA FOUNDATION  
AND SUBSIDIARIES

DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT,

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

# **Mozilla Foundation and Subsidiaries**

## **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, 2013 and 2012, 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.

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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, 2013 and 2012, 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  
September 24, 2014

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 78,538	\$ 81,512
Receivables	35,086	33,453
Prepaid expenses and other assets	7,265	5,728
Prepaid income taxes	9,679	8,762
Investments	136,202	120,825
Deferred tax benefits	1,372	128
Furniture and equipment, net	31,150	17,229
<b>Total assets</b>	<b>\$ 299,292</b>	<b>\$ 267,637</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 14,181	\$ 5,587
Accrued liabilities	23,524	17,387
Deferred revenue	523	510
Unrecognized tax positions	5,714	4,000
<b>Total liabilities</b>	<b>43,942</b>	<b>27,484</b>
<b>Net Assets:</b>		
Unrestricted	252,466	236,245
Temporarily restricted	2,884	3,908
<b>Total net assets</b>	<b>255,350</b>	<b>240,153</b>
<b>Total liabilities and net assets</b>	<b>\$ 299,292</b>	<b>\$ 267,637</b>

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)

<i>Years Ended December 31,</i>	2013	2012
<b>Unrestricted Net Assets:</b>		
Revenues and other support:		
Royalties	\$ 306,054	\$ 304,539
Interest and dividend income	611	922
Net realized and unrealized gain from investments	446	505
Contributions	2,293	855
Foreign currency exchange (loss) gain	(968)	159
Loss on sale of assets	(12)	(38)
Net assets released from restrictions	5,676	4,063
Total unrestricted revenue and support	314,100	311,005
Expenses:		
Program:		
Program services	11,629	8,074
Software development	197,469	143,193
Depreciation	7,449	7,410
Support:		
Branding and marketing	45,973	28,758
General and administrative	30,183	21,143
Depreciation	2,757	9
Total expenses	295,460	208,587
<b>Change in Unrestricted Net Assets before</b>		
<b>Provision (Benefit) for Income Taxes</b>		
	18,640	102,418
Provision for income taxes	2,419	33,809
<b>Change in Unrestricted Net Assets</b>		
	16,221	68,609
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	4,652	4,951
Net assets released from restriction	(5,676)	(4,063)
<b>Change in Temporarily Restricted Net Assets</b>		
	(1,024)	888
<b>Change in Net Assets</b>		
	15,197	69,497
<b>Net Assets - beginning of year</b>		
	240,153	170,656
<b>Net Assets - end of year</b>		
	\$ 255,350	\$ 240,153

The accompanying notes are an integral part of these statements.

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 15,197	\$ 69,497
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	10,206	7,419
Net realized and unrealized (gain) loss on investments	(446)	(505)
Foreign currency exchange loss (gain)	968	(159)
Unrecognized income tax positions	1,714	613
Change in deferred taxes	(1,268)	(1,152)
Loss on sale of assets	12	38
Changes in assets and liabilities:		
Receivables	(1,594)	(3,877)
Prepaid expenses and other assets	(1,577)	(2,608)
Accounts payable and accrued expenses	13,562	4,219
Prepaid income taxes	(870)	(3,571)
Deferred revenue	(6)	362
<b>Net cash provided by operating activities</b>	<b>35,898</b>	<b>70,276</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(24,158)	(11,619)
Purchases of investments	(83,944)	(99,057)
Proceeds from sale of investments	70,319	82,308
<b>Net cash used by investing activities</b>	<b>(37,783)</b>	<b>(28,368)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(1,089)</b>	<b>(153)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(2,974)</b>	<b>41,755</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>81,512</b>	<b>39,757</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 78,538</b>	<b>\$ 81,512</b>
<b>Supplemental Disclosure:</b>		
Cash paid for income taxes	\$ 3,322	\$ 37,655

The accompanying notes are an integral part of these statements.

# Mozilla Foundation and Subsidiaries

## 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 opportunity 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 is responsible for product development, marketing and distribution of Mozilla products: open source, standards compliant, and offering free Internet applications to hundreds of millions of users. In 2013, the Corporation introduced a new mobile operating system for smartphones named Firefox OS. The Corporation has wholly-owned subsidiaries operating in Canada, Europe, China, Taiwan 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 Subsidiaries

## 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.

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 2013 and 2012, management considers all amounts to be fully collectible. Therefore, no allowance has been established.

Mozilla has \$1,441,000 and \$1,907,000 in grants receivable at December 31, 2013 and 2012, 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 Subsidiaries

## 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.

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 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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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.

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 the contract. In addition, Mozilla receives royalties from the sale of various products on its website. Mozilla records revenue on the accrual basis on 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 has \$5,662,000 and \$498,000 in conditional promises at December 31, 2013 and 2012, 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. Advertising and promotional expense for the year ended December 31, 2013 and 2012 amounted to \$5,575,000 and \$2,424,000, respectively.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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n. Grants

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

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.

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, 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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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.

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 \$608,000 and \$820,000 are included in program services for 2013 and 2012, 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

The FASB has issued amendments that require a not-for-profit entity (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The amendments are required for the year ended December 31, 2014. Mozilla is currently evaluating the impact of adoption on its consolidated financial statements.

v. Subsequent Events

Mozilla evaluated subsequent events through September 24, 2014, the date these financial statements were available to be issued. Except for approximately \$3.4 million in severance pay accrued in 2014 for certain Corporation key executive departures, there were no material subsequent events that required recognition in these financial statements.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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

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

<b>2013</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 7,710,000	\$ 7,710,000		
Mutual funds				
Domestic	5,550,000	3,770,000	\$ 1,780,000	
EFT: Minerals	767,000	767,000		
Government bonds	1,291,000		1,291,000	
Commercial paper: Financial	10,093,000		10,093,000	
U.S. Agency funds	9,394,000	9,394,000		
Asset-backed securities	7,902,000		7,902,000	
Corporate debentures/bonds:				
Industrial	26,120,000		26,120,000	
Financial	60,369,000		60,369,000	
Utility	2,215,000		2,215,000	
Hedge funds	4,791,000		2,568,000	\$ 2,223,000
	<u>\$ 136,202,000</u>	<u>\$ 21,641,000</u>	<u>\$ 112,338,000</u>	<u>\$ 2,223,000</u>

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

<b>2012</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 24,618,000	\$ 24,618,000		
Mutual funds				
Domestic	4,663,000	4,058,000	\$ 605,000	
International	389,000	389,000		
EFT: Minerals	1,070,000	1,070,000		
Government bonds	2,476,000		2,476,000	
Commercial paper: Financial	12,290,000		12,290,000	
U.S. Agency funds	6,813,000	2,023,000	4,790,000	
Municipal bonds	2,070,000		2,070,000	
Mortgage and asset-backed securities	6,741,000		6,741,000	
Corporate debentures/bonds:				
Industrial	15,774,000	1,000	15,773,000	
Financial	34,240,000		34,240,000	
Utility	6,374,000		6,374,000	
Hedge funds	3,307,000		3,307,000	
	<u>\$ 120,825,000</u>	<u>\$ 32,159,000</u>	<u>\$ 88,666,000</u>	

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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

	2013 Hedge Funds	2012 Hedge Funds
Beginning balance		\$ 1,167,000
Purchases	\$ 2,000,000	
Unrealized gains	223,000	
Transfers to level 2		1,167,000
<b>Ending balance</b>	<b>\$ 2,223,000</b>	<b>\$ -</b>

Mozilla transferred its Level 3 investment to Level 2 in 2012 due to expiration of time restrictions. There were no changes in levels in 2013.

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, 2013 and 2012.

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 uses NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table provides information for investments using NAV to determine fair value as of December 31:

<b>2013</b>	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	\$ 1,200,000	Quarterly	90
Global macro fund (b)	1	1,368,000	Monthly	60
Long term growth fund (d)	1	1,050,000	Quarterly	60
Long and short fund (e)	2	1,173,000	Quarterly/ Monthly	60
<b>Total</b>		<b>\$ 4,791,000</b>		

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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2012	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	\$ 1,175,000	Quarterly	90
Global macro fund (b)	1	1,184,000	Monthly	60
Managed futures funds (c)	2	948,000	Monthly	10
<b>Total</b>		<b>\$ 3,307,000</b>		

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There were no unfunded commitments as of December 31, 2013 and 2012.

- (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.
- (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).
- (d) This fund invests in an affiliated Master Fund, 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.
- (e) These funds invest in an affiliated Master Funds, 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.



# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 4 - Property and Equipment:

Property and equipment as of December 31 are as follows:

	2013	2012	Useful Life (Years)
Computer equipment	\$ 21,674,000	\$ 19,402,000	3
Furniture and office equipment	12,817,000	5,755,000	3 - 7
Leasehold improvements	16,095,000	8,493,000	3 - 5
Software	220,000	814,000	1 - 3
Construction in progress	5,407,000		
	56,213,000	34,464,000	
Less accumulated depreciation	(25,063,000)	(17,235,000)	
Net property and equipment	\$ 31,150,000	\$ 17,229,000	

Depreciation and amortization expense totaled \$10,206,000 and \$7,419,000 for the years ended December 31, 2013 and 2012, respectively.

### Note 5 - Temporarily Restricted Net Assets:

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

	2013	2012
Knight-Mozilla OpenNews	\$ 838,000	
Open Badges	665,000	\$ 1,001,000
Mozilla Science Lab	370,000	646,000
Open Web Fellowships	300,000	1,214,000
Maker Party Summer Campaign	246,000	
Cybersecurity Delphi 1.0	100,000	
Hive	170,000	674,000
Lightbeam (formerly Collusion)		225,000
Participatory journalism project		65,000
Other	195,000	83,000
	\$ 2,884,000	\$ 3,908,000

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

Net assets were released from donor restrictions during the year ended December 31, 2013 and 2012 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2013	2012
Open Badges	\$ 1,892,000	\$ 1,141,000
Hive	1,123,000	881,000
Knight-Mozilla OpenNews	1,209,000	759,000
Webmaker	330,000	
Mozilla Science Lab	276,000	164,000
Lightbeam (formerly (Collusion)	226,000	74,000
Maker Party Summer Campaign	99,000	
Participatory journalism project	65,000	284,000
Drumbeat program		280,000
Other	456,000	480,000
	<u>\$ 5,676,000</u>	<u>\$ 4,063,000</u>

### Note 6 - Income Taxes:

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

	2013			
	Federal	State	Foreign	Total
Current provision (benefit)				
Corporation	\$ 3,062,000	\$ (137,000)	\$ 571,000	\$ 3,496,000
Deferred (benefit) provision				
Corporation	(1,240,000)	161,000	2,000	(1,077,000)
Total	<u>\$ 1,822,000</u>	<u>\$ 24,000</u>	<u>\$ 573,000</u>	<u>\$ 2,419,000</u>

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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	2012			
	Federal	State	Foreign	Total
Current (benefit) provision				
Foundation	\$ (500,000)			\$ (500,000)
Corporation	32,855,000	\$ 658,000	\$2,042,000	35,555,000
	32,355,000	658,000	2,042,000	35,055,000
Deferred (benefit) provision				
Corporation	(828,000)	(419,000)	1,000	(1,246,000)
	(828,000)	(419,000)	1,000	(1,246,000)
<b>Total</b>	<b>\$31,527,000</b>	<b>\$ 239,000</b>	<b>\$2,043,000</b>	<b>\$33,809,000</b>

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

	2013	2012
Total assets	\$ 4,078,000	\$ 2,169,000
Total liabilities	(2,706,000)	(2,041,000)
	<b>\$ 1,372,000</b>	<b>\$ 128,000</b>

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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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

	Foundation	Corporation	Total
Balance at December 31, 2011	\$ 2,000,000	\$ 1,387,000	\$ 3,387,000
Increases related to current tax positions		892,000	892,000
Increases related to prior year tax positions		1,837,000	1,837,000
Settlements	(2,000,000)		(2,000,000)
Lapse of time restrictions		(116,000)	(116,000)
Balance at December 31, 2012	-	4,000,000	4,000,000
Increases related to current tax positions		1,785,000	1,785,000
Increases related to prior year tax positions		802,000	802,000
Decreases related to prior year tax positions		(791,000)	(791,000)
Lapse of time restrictions		(82,000)	(82,000)
Balance at December 31, 2013	\$ -	\$ 5,714,000	\$ 5,714,000

Mozilla also accrued potential penalties and interest of \$79,000 and \$13,000 related to these unrecognized tax benefits during 2013 and 2012, respectively, and in total, as of December 31, 2013 and 2012, Mozilla has recorded a liability for potential penalties and interest of \$182,000 and \$103,000, 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. Tax years after 2009 remain subject to examination by federal and most state tax authorities. In foreign jurisdictions, the 2008-2012 tax years generally remain subject to examination by their respective tax authorities.

In 2012, the IRS closed its examination of the Foundation's federal tax returns for the years 2004 through 2007, and accepted tax returns related to years 2006 through 2007 as filed. All items were settled with payment of \$1.5 million during 2012. The final settlement represented less than 10% of the original \$16 million liability accrued for this matter.

# Mozilla Foundation and Subsidiaries

## 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 \$5,467,000 and \$4,433,000 for 2013 and 2012, respectively.

For certain other foreign operations, Mozilla contributes, in accordance with local labor regulations, employee benefits due in the event of involuntary termination. Contributions totaled \$1,628,000 and \$867,000 for 2013 and 2012, respectively.

During 2013, the Corporation established a Long Term Incentive Plan. A Corporation Board committee annually approves the participants and amount. Expenses of approximately \$2,890,000 were recorded in 2013.

### Note 8 - Concentrations of Risk:

Mozilla entered into a contract with a search engine provider for royalties which expires November 2014. Approximately 90% of royalty revenue for 2013 and 2012, was derived from this contract. The receivable from this search engine provider represented 66% and 69% of the December 31, 2013 and 2012 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, 2013 and 2012, 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, 2013 and 2012, 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:

	2013	2012
Assets:		
Europe	\$ 9,427,000	\$ 18,205,000
Asia	6,611,000	4,698,000
North America	30,392,000	29,372,000
Australia and Oceanic	994,000	1,007,000
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	\$ 47,424,000	\$ 53,282,000

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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	2013	2012
Liabilities:		
Europe	\$ 4,925,000	\$ 16,249,000
Asia	1,214,000	412,000
North America	4,297,000	3,913,000
Australia and Oceanic	488,000	563,000
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	\$ 10,924,000	\$ 21,137,000
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Foreign currency transaction (loss) gain, net	\$ (968,000)	\$ 159,000

### Note 9 - Commitments:

Mozilla leases office spaces under leases which expire through September 2021. Some leases have options to renew and one is collateralized by an unconditional, irrevocable, transferable, letter of credit. Rent expense for 2013 and 2012 totaled \$9,489,000 and \$7,439,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses:

<u>Year Ended</u>	
2014	\$ 8,338,000
2015	8,218,000
2016	7,477,000
2017	5,954,000
2018	5,151,000
Thereafter	7,210,000
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	\$ 42,348,000

Included above is a lease in Germany entered into during 2013 which provides for the option of a loan of approximately \$925,000 at 8% for the financing of tenant works (leasehold improvements). There was no loan taken at December 31, 2013.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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

Effective December 19, 2012, the license agreement between the Corporation and the Foundation for use of the Mozilla name was amended. Per the amended agreement, the Corporation shall pay the Foundation two percent (2%) of its annual net revenues related to the use of the trademarks less approved expenses of the preceding year. The Corporation paid \$6,089,000 to the Foundation under the amended license agreement in 2013.

In 2012, the Corporation's Board of Directors approved, and the Corporation paid \$2.5 million in dividends to the Foundation.

The Corporation provides basic administrative services, human resources 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.