MOZILLA FOUNDATION AND SUBSIDIARIES

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Mozilla Foundation and Subsidiaries

Independent Auditors' Report and
Consolidated Financial Statements

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)** which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Mozilla's preparation and fair presentation of the 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 Mozilla'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mozilla Foundation and Subsidiaries as of December 31, 2019 and 2018 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.

Adoption of New Accounting Standards

As discussed in Notes 2.l. and 2.u. to the financial statements, effective January 1, 2019, Mozilla changed its method of accounting for revenue from contracts with customers due to the adoption of Financial Accounting Standards Board (FASB) *Accounting Standards Codification Topic 606, Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

As discussed in Note 2.u. to the financial statements, effective January 1, 2019, Mozilla changed its method of accounting for contributions due to the adoption of FASB *Accounting Standards Update No. 2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this matter.

As discussed in Note 2.u. to the financial statements, effective January 1, 2019, Mozilla changed its method of accounting for leases due to the adoption of FASB *Accounting Standards Update No. 2016-02 - Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Hood & Strong LLP

San Jose, California
October 16, 2020

Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position
(In thousands)

December 31,	2019	2018
Assets		
Cash and cash equivalents	$ 437,181	$ 141,864
Receivables	49,301	57,974
Prepaid expenses and other assets	43,033	17,930
Investments	347,900	340,075
Prepaid income taxes	11,306	12,242
Deferred taxes	11,609	10,205
Property and equipment, net	16,944	17,611
Goodwill, net	20,814	23,415
Intangible assets, net	1,559	1,427
Total assets	$ 939,647	$ 622,743
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 13,769	$ 20,143
Accrued liabilities	27,035	20,474
Accrued compensation and benefits	83,418	54,564
Deferred revenue	1,389	616
Other liabilities	26,937	3,409
Total liabilities	152,548	99,206
Net Assets:		
Without donor restrictions	779,863	516,767
With donor restrictions	7,236	6,770
Total net assets	787,099	523,537
Total liabilities and net assets	$ 939,647	$ 622,743

See accompanying notes to consolidated financial statements.

Mozilla Foundation and Subsidiaries

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

Years Ended December 31,	2019	2018
Net Assets Without Donor Restrictions:		
Revenues and other support:		
Royalties	$ 451,246	$ 429,695
Subscription and advertising revenue	14,039	5,377
Other revenue	338,000	
Interest and dividend income	9,703	7,905
Net realized and unrealized gain (loss) on investments, net	5,704	(1,688)
Contributions	3,596	6,335
Other income, net	1,321	864
Foreign currency exchange loss	(710)	(2,402)
Loss on long-term investment	(1,936)	(42)
Net assets released from restrictions	7,651	4,816
Total revenue and support	828,614	450,860
Expenses:		
Program:		
Software development	303,515	277,767
Other program services	22,381	33,484
Management and general:		
Branding and marketing	43,535	52,805
General and administrative	124,251	86,045
Fundraising:		
Fundraising and development	1,597	1,270
Total expenses	495,279	451,371
Change in Net Assets Without Donor Restrictions before Provision for Income Taxes	333,335	(511)
Provision for income tax expense (benefit)	70,239	(7,035)
Change in Net Assets Without Donor Restrictions	263,096	6,524
Change in Net Assets With Donor Restrictions:		
Contributions	8,117	7,657
Net assets released from restriction	(7,651)	(4,816)
Change in Net Assets With Donor Restrictions	466	2,841
Change in Net Assets	263,562	9,365
Net Assets - beginning of year	523,537	514,172
Net Assets - end of year	$ 787,099	$ 523,537

See accompanying notes to consolidated financial statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Functional Expenses
(In thousands)

Years Ended December 31, 2019 and 2018

	2019				2018			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 210,361	$ 109,118	$ 1,166	$ 320,645	$ 202,087	$ 82,423	$ 1,061	$ 285,571
Information technology	35,973	3,318	45	39,336	24,864	7,681	18	32,563
Consultants	26,825	10,017	108	36,950	23,672	7,359		31,031
Advertising and promotion	123	13,181	138	13,442	230	21,860	143	22,233
Conferences, conventions, and meetings	4,451	3,957	5	8,413	13,411	6,344		19,755
Occupancy	8,424	3,292		11,716	8,318	2,577		10,895
Grants and donations	8,595	1,016	12	9,623	8,702	730		9,432
Events	830	90	17	937				-
Legal	1,548	9,110	10	10,668	4,929	1,779		6,708
Dues and subscriptions	2,782	2,929	7	5,718	3,070	2,700		5,770
Travel	3,093	1,239	68	4,400	3,912	1,466	40	5,418
Office expenses	3,878	2,081	9	5,968	4,167	1,722	4	5,893
Accounting and audit		2,069		2,069		1,611		1,611
Insurance	2	375		377	254	91		345
Depreciation and amortization	7,561	2,957		10,518	12,090	23		12,113
Other expenses	11,450	3,037	12	14,499	1,545	484	4	2,033
Expenses before income tax provision (benefit)	325,896	167,786	1,597	495,279	311,251	138,850	1,270	451,371
Provision for income tax expense (benefit)	50,492	19,745	2	70,239	(5,359)	(1,676)		(7,035)
Total expenses	$ 376,388	$ 187,531	$ 1,599	$ 565,518	$ 305,892	$ 137,174	$ 1,270	$ 444,336

See accompanying notes to consolidated financial statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows
(In thousands)

Years Ended December 31,	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	$ 263,562	$ 9,365
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	10,518	12,113
Net realized and unrealized (gain) loss on investments	(5,704)	1,688
Foreign currency exchange loss	710	2,402
Unrecognized tax positions	(18)	(414)
Deferred income taxes	(1,404)	(4,119)
Loss on sale of assets	195	
Loss on long term investment	1,936	42
Changes in assets and liabilities:		
Receivables	8,673	(4,362)
Prepaid expenses and other assets	4,215	(9,307)
Prepaid income taxes	936	10,403
Accounts payable and accrued expenses	710	6,269
Accrued compensation and benefits	28,854	5,875
Deferred revenue	773	32
Other liabilities	(9,554)	(1,705)
Net cash provided by operating activities	304,402	28,282
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,453)	(6,385)
Purchases of investments	(377,402)	(261,722)
Proceeds from sale of investments	375,281	333,946
Purchase of intangible	(801)	
Net cash (used by) provided by investing activities	(8,375)	65,839
Effect of Exchange Rate Changes on Cash	(710)	(2,000)
Net Change in Cash and Cash Equivalents	295,317	92,121
Cash and Cash Equivalents - beginning of year	141,864	49,743
Cash and Cash Equivalents - end of year	$ 437,181	$ 141,864
Supplemental Disclosure:		
Property and equipment and other accrued but not yet paid	$ 1,323	
Cash paid for taxes, net of refunds	$ 70,537	$ (14,543)
Right-of-use assets recognized in exchange for lease liabilities	$ 33,100	

See accompanying notes to consolidated financial 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 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) fuels the movement for an open internet through educational work that connects open internet leaders with each other and mobilizes grassroot activities around the world.

The Foundation has two wholly-owned for-profit subsidiaries, Mozilla Corporation (the Corporation) and MZLA Technologies Corporation (MZLA). The Corporation serves the non-profit, public benefit goals of its parent and the vast Mozilla community. It provides internet based open source software and services (Mozilla Products) which are made available to hundreds of millions of users worldwide to fulfill Mozilla's worldwide mission to make the internet and the web open and accessible to all. The Corporation is headquartered in Mountain View, California and has operations in Australia, Canada, China, New Zealand, Taiwan, Netherlands, Germany, France, United Kingdom and other European countries.

The primary purpose of MZLA is to advance the Foundation's objectives of promoting choice and innovation on the internet. MZLA is headquartered in Mountain View, California.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of the Foundation and its wholly owned subsidiaries (collectively Mozilla) have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities. All significant intercompany accounts and transactions have been eliminated.

b. Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets that are not subject to time or donor-imposed restrictions and may be expended for any purpose in achieving the primary objective of the Foundation.

Net Assets With Donor Restrictions – Net assets that are limited in use by Mozilla in accordance with 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. Net assets with donor restrictions also include net assets to be retained in perpetuity of which Mozilla has none as of December 31, 2019 and 2018.

c. Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents generally consist of investments in money market funds and commercial paper. The carrying value of cash and cash equivalents approximate their fair value as of December 31, 2019 and 2018.

d. 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 or grant 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 2019 and 2018, management considers all amounts to be fully collectible. Therefore, no allowance has been established.

Mozilla has $2.2 million and $1.3 million in grants receivable at December 31, 2019 and 2018, respectively.

e. Investments

Investments, which consist of marketable debt securities, mutual funds, government issued securities, and hedge funds, are stated at fair value. The fair value of marketable debt and government issued securities is based upon models that maximize the use of observable inputs for similar assets. The fair value of mutual funds is based on their quoted prices for identical assets in active or inactive markets. The fair value of hedge funds has 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 consolidated statement of activities and change in net assets.

f. 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.

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, certain investments are reported using the NAV per share method practical expedient which 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.

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

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability that are not corroborated by market data.

In determining the appropriate levels, Mozilla performed an analysis of the assets and liabilities. Any assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

g. 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 recognizes asset retirement obligations (AROs) in the period in which it has an existing legal obligation associated with the retirement of a tangible long-lived asset, and the amount of the liability can be reasonably estimated. The ARO is recognized at fair value when the liability is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Mozilla depreciates the tangible asset over its estimated useful life. The liability is adjusted in subsequent periods through accretion expense, if any, which represents the increase in the present value of the liability due to the passage of time. Such depreciation and accretion expenses are included in depreciation expense.

Mozilla's AROs are primarily the result of requirements under facility lease agreements which generally have *return to original condition* clauses which would require Mozilla to remove or restore items such as demising walls and office buildouts, among others.

The significant assumptions used in estimating the aggregate ARO are the timing of removals, the probability of a requirement to perform, estimated cost and associated expected inflation rates that are consistent with historical rates and credit-adjusted risk-free rates that approximate Mozilla's incremental borrowing rate.

h. <u>Leases</u>

Mozilla accounts for its leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 842, as discussed in the *recently adopted accounting pronouncements* section below. Mozilla determines whether an arrangement is or includes a lease and categorizes leases as either operating or financing leases at their commencement. Right-of-use (ROU) assets are included within *prepaid expenses and other assets* and lease liabilities are included within *other liabilities* on the consolidated statement of financial position. Mozilla does not have any financing leases.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As Mozilla's leases do not provide an implicit rate, Mozilla uses a risk-free discount rate at the commencement date in determining the present value of future payments. The lease ROU asset also includes any lease payments made minus any lease incentives received and initial direct costs incurred. Mozilla accounts for lease and non-lease components, to the extent they are fixed, as a single lease component. Additionally, the lease term may include options to extend or terminate the lease when it is reasonably certain Mozilla will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

i. <u>Business Combinations</u>

When Mozilla acquires a business, the purchase price is allocated to the net tangible and identifiable assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make estimates in determining the fair value of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates can include but are not limited to: the cash flows that an asset is expected to generate in the future, the approximate weighted-average cost of capital and the cost savings expected to be derived from acquiring the asset. These estimates are inherently uncertain and unpredictable. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statement of activities and change in net assets.

j. Goodwill and Intangible Assets

Goodwill represents the excess of the cost of net assets acquired over the fair value of identifiable net assets at the date of acquisition. Intangible assets consist of acquired user base, trade names and trademarks, and developed technology.

Effective January 1, 2018 Mozilla adopted the private company alternative accounting policy for goodwill. Goodwill is amortized over a 10-year estimated useful life and impairment is assessed at the reporting unit level. Mozilla performs an impairment test only when there is a triggering event by comparing the fair value of the reporting unit to its carrying value.

k. 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.

l. Recognition of Revenue

Adoption of Topic 606

On January 1, 2019, Mozilla adopted the requirements of *Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers* (Topic 606) as discussed further in *recently adopted accounting pronouncements* below. Topic 606 establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, references to Topic 606 used herein refer to both Topic 606 and Subtopic 340-40. Mozilla adopted Topic 606 using the modified retrospective method of transition as of the effective date. The impact of adopting Topic 606 on Mozilla’s revenue is not material to any of the periods presented.

Mozilla accounts for revenue from contracts with customers by applying the requirements of Topic 606, which includes the following steps:

- *Identification of the contract, or contracts, with a customer* - A contract with a customer exists when (i) Mozilla enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance, and (iii) Mozilla determines that collection of substantially all consideration for services that are transferred are probable based on the customer's intent and ability to pay the promised consideration when it is due.

- *Identification of the performance obligations in the contract* - Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the services either on their own or together with other resources that are readily available from third parties or from Mozilla, and are distinct within the context of the contract, whereby the transfer of the services is separately identifiable from the other promises in the contract.

- *Determination of the transaction price* - The transaction price is determined based on the consideration to which Mozilla will be entitled in exchange for transferring services to the customer. Such amounts are typically stated in the customer contract and to the extent that Mozilla identifies variable consideration, Mozilla estimates the variable consideration at the onset of the arrangement as long as it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- *Allocation of the transaction price to the performance obligations in the contract* - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Mozilla noted that contracts will only contain a single performance obligation and therefore no standalone selling price determination is necessary.

- *Recognition of revenue when, or as, the company satisfies a performance obligation* - For each performance obligation identified, Mozilla determines at contract inception whether it satisfies the performance obligation over time or at a point in time. For performance obligations that are satisfied at a point in time Mozilla recognizes revenue at the time that control is transferred, and for performance obligations satisfied over time Mozilla recognizes revenue as services are provided typically over the contract term.

Revenue consists of the following*:*

- *Royalties* - Mozilla provides Firefox web browser, which is a free and open-source web browser initially developed by Mozilla Foundation and the Corporation. Mozilla incorporates search engines of its customers as a default status or an optional status available in the Firefox web browser. Mozilla generally receives royalties at a certain percentage of revenues earned by its customers through their search engines incorporated in the Firefox web browser.

- *Subscription revenues* - Mozilla's subscription revenues primarily consist of revenue from subscriptions to a service known as Pocket Premium (Pocket). Customers who subscribe to Pocket unlock access to additional Pocket features. Pocket is a mobile and web application that enables users to save, manage and consume articles, videos, and other content from the internet. Included in a Pocket subscription are features like full text search on saved articles, removal of advertising from Pocket properties, the ability to create unlimited highlights and the ability to create a permanent library of everything a user has saved.

- *Advertising revenues* - Mozilla also offers advertising services in three formats. The first is the New Tab advertising service, which places links to sponsored content when a new tab is opened in the Firefox web browser. The second format is through Pocket's email product, Pocket Hits. Pocket Hits may include paid advertisements, which are placed in email newsletters that get delivered to global Pocket users. Lastly, Mozilla also sells web advertisement spots on content that Mozilla licenses and syndicates from publisher partners across the web.

- *Deferred Revenue* - Mozilla records contract liabilities to deferred revenue when amounts are invoiced or received in advance of performance. Deferred revenue primarily consists of contract billings in excess of amounts recognized as revenue in a customer contract. Deferred revenue is separately disclosed on Mozilla's consolidated statement of financial position.

Payment terms and conditions vary by contract type. For Mozilla's contracts with search engine and information providers their financial information is generally publicly available and as such Mozilla assesses credit risk prior to entering into contracts with new customers and does not enter into contracts if collection is not probable. For subscription and advertising, contracts are typically only cancellable with a short notice period, and therefore the consideration to which Mozilla is entitled for which Mozilla must assess probability of collection is not significant. In instances where the timing of revenue recognition differs from the timing of invoicing, Mozilla has determined the contracts do not contain a significant financing component.

m. 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. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions.

Conditional promises, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met. Mozilla received $11.7 million and $14.0 million in contributions during the years ending December 31, 2019 and 2018, respectively, and has $0.9 million and $3.5 million in conditional promises at December 31, 2019 and 2018, respectively.

n. Software Development Costs

Mozilla develops open source web-based solutions which are 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.

o. Advertising Costs

Mozilla expenses advertising costs as incurred. Amounts paid in advance of services provided are recorded as a prepaid expense. Advertising expense for the years ended December 31, 2019 and 2018 amounted to $9.6 million and $18.0 million, respectively.

p. 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 and is not classified as a private foundation. The Foundation provides for tax, if any, on unrelated business income.

The Corporation and MZLA 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, property and equipment, prepaid and accrued expenses and net operating losses and credits. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized.

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

q. Foreign Currency Translation

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

r. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, support and expenses reported during the reporting period. Mozilla bases its estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. Actual results could differ from those estimates.

s. Functional Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statement of activities and change in net assets. Expenses such as salaries and benefits and facilities are allocated among program, management and general, and fundraising based on time estimates determined by Mozilla’s management. Office supplies and other indirect costs are allocated based on time and effort. All other costs are allocated directly to the functions they benefit.

t. Reclassification

Certain accounts in the 2018 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2019 financial statements. These reclassifications had no effect on net assets or change in net assets.

u. Accounting Pronouncements

Recently Adopted Accounting Pronouncements:

In May 2014, the FASB issued Topic 606. Topic 606 supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, Topic 606 and Subtopic 340-40 are referred as the "new standard."

Mozilla early adopted the requirements of the new standard on January 1, 2019, using the modified retrospective method of transition as of the effective date. Mozilla assessed the impact of the standard for all contracts that were not completed prior to January 1, 2019. The adoption of the new standard did not result in an impact to Mozilla's consolidated statement of activities and change in net assets or consolidated statement of financial position.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) which clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. Mozilla adopted this ASU on a modified prospective basis as of January 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statements or disclosures.

In February 2016, the FASB issued ASU 2016-02 - *Leases* (Topic 842). Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their consolidated statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations. Mozilla adopted this standard on January 1, 2019, establishing a $32.0 million right-of-use asset and corresponding $33.1 million lease liability. In addition, Mozilla elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed Mozilla to carry forward the historical lease classification. Mozilla also elected the practical expedient to not separate the lease and non-lease components.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents in the statements of cash flows. Mozilla adopted this standard in the fiscal year beginning January 1, 2019. The adoption of this standard did not have a material impact on Mozilla's financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends guidance related to impairment of financial instruments by replacing the incurred loss impairment methodology with an expected credit loss model for which a company recognizes an allowance based on the estimate of expected credit loss. The standard is effective for Mozilla beginning January 1, 2023. Mozilla is currently evaluating the impact of adopting this new guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, (ASU 2018-13). The purpose of ASU 2018-13 is to improve the disclosures related to fair value measurements in the financial statements. The improvements include the removal, modification and addition of certain disclosure requirements primarily related to Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. Mozilla is currently evaluating the impact of adopting this new guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which provides amended guidance for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new standard also requires customers to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The guidance is effective for fiscal years beginning after December 15, 2020. Mozilla is currently evaluating the impact of adopting this standard on its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles and to simplify areas such as franchise taxes, step up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The ASU is effective for fiscal years beginning after December 15, 2021. Mozilla is currently evaluating the impact of adopting this standard on its financial statements.

Note 3 - Cash Equivalents, Investments and Fair Value Measurements:

The tables below presents cash equivalents and investments measured at fair value on a recurring basis by level within the valuation hierarchy at December 31 (in thousands):

2019	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 4,165	$ 4,165		
Commercial paper	698		$ 698	
Total cash equivalents	4,863	4,165	698	
Marketable securities:				
Mutual funds				
Domestic	17,305	15,081	2,224	
ETF: Minerals	510	510		
Municipal bonds	2,890		2,890	
U.S. agency funds	141,567		141,567	
Asset-backed securities	50,856		50,856	
Corporate debt securities	132,812		132,812	
Total marketable securities	345,940	15,591	330,349	
Hedge fund investments measured at net asset value as a practical expedient	1,960			
Total investments	$ 347,900	$ 15,591	$ 330,348	
Total assets measured at fair value	$ 350,803	$ 19,796	$ 331,047	

2018	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 8,901	$ 8,901		
Commercial paper	19,830		$ 19,830	
Total cash equivalents	28,731	8,901	19,830	
Mutual funds				
Domestic	14,170	11,875	2,295	
ETF: Minerals	433	433		
Municipal bonds	2,379		2,379	
U.S. agency funds	39,263		39,263	
Asset-backed securities	57,596		57,596	
Corporate debt securities	224,528		224,528	
Total marketable securities	338,369	12,308	326,061	
Hedge fund investments measured at net asset value as a practical expedient	1,706			
Total investments	$ 340,075	$ 12,308	$ 326,061	
Total assets measured at fair value	$ 367,100	$ 21,209	$ 345,891	

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, 2019 and 2018.

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 using NAV to determine fair value as of December 31 (in thousands):

	2019		2018			
	# of Funds	Valuation	# of Funds	Valuation	Redemption Frequency	Notice Period
Global macro fund (a)	1	$ 1,395	1	$ 1,286	Monthly	90 Days
Feeder fund (b)	1	565	1	420	None	N/A
Total		$ 1,960		$ 1,706		

There were $0.2 million and $0.3 million in unfunded commitments as of December 31, 2019 and December 31, 2018, respectively.

(a) This fund invests in an affiliated Master Fund LP, whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.

(b) This fund invests in an affiliated Master Fund LP, whose objective is to invest on a leveraged basis, in whole or in part, in collateralized and unsecured commercial loans and debt securities of corporations, partnerships, companies or other securities.

Note 4 - Property and Equipment:

Property and equipment as of December 31, is as follows (in thousands):

	2019	2018	Useful Life (Years)
Computer equipment	$ 26,660	$ 21,753	3
Furniture and office equipment	10,554	12,321	3 - 7
Leasehold improvements	33,152	34,090	3 - 5
Software	279	305	1 - 3
Gross property and equipment	70,645	68,469	
Less accumulated depreciation	(53,701)	(50,858)	
Net property and equipment	$ 16,944	$ 17,611	

Depreciation and amortization expense, excluding amortization on intangibles and goodwill totaled $7.2 million and $8.3 million for the years ended December 31, 2019 and 2018, respectively.

Mozilla has recorded an asset retirement obligation liability of $2.8 million and $3.2 million for the years ended December 31, 2019 and 2018, respectively. Mozilla recognized $0.3 million and $1.5 million in depreciation expense associated with the asset retirement obligation for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Goodwill:

Goodwill is amortized over an estimated useful life of 10 years. Amortization expense for the years ended December 31, 2019 and 2018 was $2.6 million. Goodwill is as follows as of December 31 (in thousands):

		2019		2018	Estimated Useful Life (Years)
Goodwill	$	26,017	$	26,017	10
Less: Accumulated amortization		(5,203)		(2,602)	
Total goodwill, net	$	20,814	$	23,415	

Mozilla adopted the private company alternative accounting policy for goodwill effective January 1, 2018 to reduce the complexity and costs of the original goodwill accounting method.

Note 6 - Intangible Assets:

Intangible assets are amortized over their estimated useful lives on a straight-line basis. No residual value is estimated for the intangible assets.

The components of intangible assets are as follows as of December 31 (in thousands):

		2019		2018	Estimated Useful Life (Years)
User base	$	1,500	$	1,500	2
Trade names and trademark		1,200		1,200	5
Developed technology		1,000		1,000	4
Domain rights		801			15
Gross intangible assets		4,501		3,700	
Less: Accumulated amortization		(2,942)		(2,273)	
Total intangible assets, net	$	1,559	$	1,427	

Amortization expense for the years ended December 31, 2019 and 2018 was $668,000 and $1.2 million, respectively. Expected amortization expense relating to intangible assets is as follows (in thousands):

Year ended December 31,

2020	$	543
2021		335
2022		93
2023		53
2024		53
Thereafter		482
Total	$	1,559

Note 7 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following at December 31, 2019 (in thousands):

		2019		2018
Leadership Development: Mozilla Tech and Society Fellowships	$	2,000		
Leadership Development: Coil Open Internet		925		
Leadership Development: Responsible Computer Science Challenge		886	$	1,287
Leadership Development: Mozilla Science Fellowships		850		1,021
Thunderbird		2,159		1,805
Leadership Development: Mozilla MITI/OIE Fellowships		280		814
Leadership Development: Ford-Mozilla Open Web Program		59		1,090
Community: Coral Software Project				32
Other		77		721
	$	7,236	$	6,770

Net assets were released from donor restrictions during the years ended December 31, 2019 and 2018 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows (in thousands):

	2019	2018
Leadership Development: Responsible Computer Science Challenge	$ 2,990	$ 73
Thunderbird	1,114	477
Leadership Development: Ford-Mozilla Open Web Program	1,031	1,422
Leadership Development: Mozilla Science Fellowships	1,181	1,181
Leadership Development: Mozilla MITI/OIE Fellowships	659	361
Community: Coral Software Project	32	846
Leadership Development: Hive		174
Other	644	282
	$ 7,651	$ 4,816

Note 8 - Income Taxes:

The following is a geographical breakdown of consolidated income before income taxes by tax jurisdiction for the year ended December 31 (in thousands):

	2019	2018
United States	$ 318,253	$ 6,779
Foreign	15,548	(4,449)
Income before provision for income taxes	$ 333,801	$ 2,330

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

	2019			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ 15			$ 15
Corporation	66,945	$ 5,393	$ 74	72,412
Deferred provision (benefit)				
Corporation	(1,804)	(117)	(267)	(2,188)
Total	$ 65,156	$ 5,276	$ (193)	$ 70,239

	2018			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ 54			$ 54
Corporation	(4,298)	$ 48	$ 1,087	(3,163)
Deferred provision (benefit)				
Corporation	(2,701)	(1,301)	76	(3,926)
Total	$ (6,945)	$ (1,253)	$ 1,163	$ (7,035)

The provision for income taxes differs from taxes calculated at the federal statutory rate primarily due to the activity related to Mozilla's unrecognized tax positions, nondeductible expenses, research and development credits, accrued expenses and other reserves, and state income taxes net of federal tax benefit.

The tax effects of temporary differences and related deferred tax assets and liabilities as of December 31, 2019, and 2018, are as follows (in thousands):

	2019	2018
Deferred tax assets:		
Foreign operating loss	$ 31	$ 88
Net operating loss	2,764	7,117
Credits	7,590	8,587
Accrued expenses and other reserves	7,378	1,648
Asset retirement obligations	253	
Right of use liability	4,487	667
Property and equipment	462	549
State tax deduction	878	
Other	1,811	1,695
Total gross deferred tax assets	25,654	20,351
Less valuation allowance	(7,598)	(8,595)
Net deferred tax assets	18,056	11,756
Prepaid expense	(1,593)	(1,085)
State tax deduction		(332)
Right of use asset	(4,268)	
Unrealized gain or loss	(469)	
Foreign deferred tax liabilities	(117)	(134)
Total gross deferred tax liabilities	(6,447)	(1,551)
Net deferred tax assets	$ 11,609	$ 10,205

As of December 31, 2019, Mozilla has approximately $8.5 million of federal and $14.1 million of state net operating loss carryforwards to be available to offset future taxable income. If not utilized, the federal and state operating loss carryforwards will begin to expire in 2033 for federal and 2026 for state.

As of December 31, 2019, Mozilla has federal and state research and development credit carryforwards of $48,000 and $11.8 million, respectively, available to offset future tax liabilities. If not utilized, the carryforwards will begin to expire in 2032 for federal, and will not expire for state.

In July 2006, the FASB issued Financial Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, (codified primarily in FASB ASC Topic 740, *Income Taxes*) which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards 109, *Accounting for Income Taxes* (codified primarily in FASB ASC Topic 740, *Income Taxes).* FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Mozilla's unrecognized tax benefits are as follows (in thousands):

	Foundation	Corporation	Total
Balance at December 31, 2019	$ -	$ 8,315	$ 8,315
Balance at December 31, 2018	$ -	$ 5,902	$ 5,902

Mozilla also accrued potential penalties and interest of $201,000 and $128,000 related to these unrecognized tax benefits during 2019 and 2018, respectively, and in total, has recorded a liability for potential penalties and interest of $466,000 and $372,000, as of December 31, 2019 and 2018, respectively. Mozilla recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of activities and change in net assets. Accrued interest and penalties are included within the unrecognized tax positions line in the consolidated statement of financial position. Mozilla does not expect its unrecognized tax benefits to change significantly over the next 12 months.

As of December 31, 2019, the unrecognized tax benefit was $8.3 million, of which $3.4 million, if recognized, would affect the effective tax rate.

Mozilla files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Mozilla is generally no longer subject to income tax examination by the U.S. Federal and state taxing authorities for the tax years ending before 2016 and 2015, respectively. In foreign jurisdictions, the 2013 through 2019 tax years generally remain subject to examination by their respective taxing authorities.

Note 9 - 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 $9.6 million and $8.1 million for 2019 and 2018, respectively.

For certain other foreign locations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled $2.6 million and $2.4 million for 2019 and 2018, respectively.

Note 10 - Concentrations of Risk:

Mozilla's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, investments, and receivables.

At December 31, 2019 and 2018, essentially all of the cash is in excess of the federally insured limits. In addition, cash equivalents and 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.

Approximately 88% and 90% of Mozilla's royalty revenues from customers with contracts were derived from one customer for 2019 and 2018, with receivables from the one customer representing approximately 73% and 75% of the December 31, 2019 and 2018 outstanding receivables, respectively.

Note 11 - Commitments and Contingencies:

Included in cash and cash equivalents at December 31, 2019 and 2018 is approximately $1.0 million of collateral pledged for lease agreements.

Leases

Mozilla leases its various office spaces under operating leases, which require it to pay base rent, real estate taxes, insurance, general repairs and maintenance. Mozilla's leases are located in Mountain View, CA, San Francisco, CA, Portland, OR, Canada, Taiwan, the United Kingdom, Germany and France and have various expiration dates through 2023. Some leases have options to renew and certain leases are guaranteed by letters of credit. Rent expense for 2019 and 2018 totaled $11.7 million and $10.9 million, respectively.

Lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of the remaining minimum lease payments over the lease term, with certain adjustments as described in Note 2. As Mozilla's leases do not provide an implicit rate, and in accordance with the private company exemptions available under ASC 842, Mozilla uses a risk-free interest rate based on the information available at commencement date in determining the present value of lease payments.

As of December 31, 2019, Mozilla had right-of-use assets of $22.4 million and lease liabilities related to its operating leases of $23.5 million. Right-of-use assets are included in *prepaid expenses and other assets* and lease liabilities are included within *other liabilities* on the consolidated statement of financial position. During the fiscal year ended December 31, 2019, Mozilla paid $8.1 million in cash related to its operating leases. As of December 31, 2019, the weighted-average remaining lease term and weighted-average discount rate related to Mozilla's operating leases were 2.9 years and 4.0%, respectively.

The standard did not have a significant effect on Mozilla's consolidated statement of activities and change in net assets or consolidated statement of cash flows.

Future minimum lease commitments are as follows and include all base rent and operating expenses (in thousands):

Year Ended December 31,		
2020	$	9,961
2021		6,861
2022		5,069
2023		3,050
Total scheduled payments	$	24,941

Legal Matters

From time to time, Mozilla may be party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages. Mozilla makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Unless otherwise specifically disclosed in this note, Mozilla has determined that no provision for liability nor disclosure is required related to any claim against Mozilla because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

Settlement of Litigation

In 2019, the Corporation recognized $338.0 million of litigation settlement as revenue under Topic 606.

Note 12 - Related Party Transactions:

The Corporation pays the Foundation two percent (2%) of its annual net revenues related to the use of the trademarks less approved expenses of the current year in license fees per a trademark license agreement. The Corporation incurred $15.9 million and $8.5 million in license fees to the Foundation in 2019 and 2018, respectively.

During 2018, the Corporation also paid a one-time additional flat fee of $4.5 million to the Foundation based on a one-time supplemental agreement between the parties.

The Corporation provides basic administrative services, IT support and legal services and the Foundation provides support and administration of a grant program to the Corporation under a service agreement between the Corporation and the Foundation.

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

Note 13 - Availability of Financial Assets and Liquidity:

Mozilla's financial assets available within one year of December 31, for general expenditures are as follows (in thousands):

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 437,181	$ 141,864
Receivables	49,301	57,974
Investments	347,900	340,075
Total financial assets	834,382	539,913
Less amounts not available to be used within one year:		
Long-term contributions and notes receivable		(12,500)
Investments not convertible to cash within 12 months	(275,055)	(323,442)
Other assets	(1,000)	(1,000)
Net assets with donor restrictions	(7,236)	(6,770)
Add net assets with purpose restrictions to be met in less than a year	5,582	6,693
Total amounts not available to be used within one year	(277,709)	(337,019)
Financial assets available to meet general expenditures over the next twelve months	$ 556,673	$ 202,894

Mozilla has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. Donor restricted assets that are not available for general expenditure within the next year, are more fully described in Note 7.

As part of the Mozilla's liquidity management plan, cash in excess of daily requirements is invested in a managed portfolio of fixed income and equity securities.

Note 14 - Subsequent Events:

Mozilla evaluated subsequent events from December 31, 2019 through October 16, 2020, the date these financial statements were available to be issued. Except as disclosed in the following paragraph, there were no other material subsequent events that required recognition or additional disclosure in these financial statements.

In December 2019, a coronavirus (COVID-19) was reported in China, and, in January 2020, the World Health Organization declared it a Public Health Emergency of International Concern. This contagious disease outbreak, which has continued to spread to additional countries including the United States of America, and any related public health developments, could adversely affect workforces, customers, economies and financial markets globally, potentially leading to an economic downturn. Any of the foregoing could harm business and Mozilla cannot anticipate all of the ways in which health epidemics such as COVID-19 could negatively impact the business. Although Mozilla is continuing to monitor and assess the effects of the COVID-19 pandemic on its business, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

In January 2020, the Corporation amended its trademark license agreement with the Foundation. Under the amended agreement, the Corporation will pay the Foundation a royalty payment based on its annual royalty revenues. The amount of royalties owed are calculated using a tiered rate structure, but at no time will the royalty payment go below the lesser of $11.0 million or six (6)% of search revenue.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted and signed into law in the U.S. The CARES Act includes a number of income tax changes, including, but not limited to (1) permitting NOL carrybacks to offset 100% of taxable income for taxable years beginning before 2021, (2) accelerating AMT tax refunds, (3) temporarily increasing the allowable business interest deduction from 30% to 50% of adjusted taxable income, and (4) providing a technical correction for depreciation as it relates to qualified improvement property. Mozilla is currently evaluating the potential tax impact of the CARES Act.

In addition to an 80 person reduction in January, on August 11, 2020, the Corporation announced an approximate 250 person reduction in worldwide workforce, including the closure of its Taiwan office. Mozilla is currently assessing the impact this restructuring will have on its financial statements.