

**MOZILLA FOUNDATION AND SUBSIDIARIES**

**DECEMBER 31, 2021 and 2020**

---

INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS

# Mozilla Foundation and Subsidiaries

## Independent Auditors' Report and Consolidated Financial Statements

---

<b>Independent Auditors' Report</b>	1 - 2
-------------------------------------	-------

### **Consolidated Financial Statements**

Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Change in Net Assets	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 33



A Century Strong

## Independent Auditors' Report

AUDIT COMMITTEE  
MOZILLA FOUNDATION AND SUBSIDIARIES  
San Francisco, California

### Opinion

We have audited the consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)**, which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, 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 financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mozilla as of December 31, 2021 and 2020, and the changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mozilla and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mozilla's ability to continue as a going concern for one year from the date of this report.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mozilla's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Hood & Strong LLP*

San Jose, California  
October 6, 2022

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 378,266	\$ 256,628
Receivables, net of allowance for doubtful accounts of \$148 and \$373, respectively	62,832	53,370
Prepaid expenses and other assets	31,899	29,116
Investments	651,079	577,467
Prepaid income taxes	391	3,604
Deferred taxes	19,494	17,492
Property and equipment, net	4,210	8,740
Goodwill, net	15,610	18,212
Intangible assets, net	681	1,016
<b>Total assets</b>	<b>\$ 1,164,462</b>	<b>\$ 965,645</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 16,097	\$ 13,086
Accrued liabilities	3,596	14,367
Accrued compensation and benefits	68,205	71,433
Deferred revenue	2,963	1,249
Other liabilities	19,397	22,491
<b>Total liabilities</b>	<b>110,258</b>	<b>122,626</b>
<b>Net Assets:</b>		
Without donor restrictions	1,046,307	835,028
With donor restrictions	7,897	7,991
<b>Total net assets</b>	<b>1,054,204</b>	<b>843,019</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,164,462</b>	<b>\$ 965,645</b>

See accompanying notes to consolidated financial statements.

# Mozilla Foundation and Subsidiaries

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

<i>Years Ended December 31,</i>	2021	2020
<b>Net Assets Without Donor Restrictions:</b>		
Revenues and other support:		
Royalties	\$ 527,585	\$ 441,279
Subscription and advertising revenue	56,563	24,835
Other revenue	451	400
Interest and dividend income	5,719	9,103
Net realized and unrealized gain (loss) on investments	(1,445)	6,264
Contributions	7,398	6,775
Other income (expense), net	(1,694)	2,731
Foreign currency exchange gain (loss), net	688	1,324
Net assets released from restrictions	5,419	4,156
<b>Total revenue and support</b>	<b>600,684</b>	<b>496,867</b>
Expenses:		
Program:		
Software development	199,189	242,452
Other program services	27,059	20,339
Management and general:		
Branding and marketing	30,087	37,061
General and administrative	81,750	137,267
Fundraising:		
Fundraising and development	1,876	1,696
<b>Total expenses</b>	<b>339,961</b>	<b>438,815</b>
<b>Change in Net Assets Without Donor Restrictions before Provision for Income Taxes</b>	<b>260,723</b>	<b>58,052</b>
Provision for income tax expense	49,020	2,740
<b>Change in Net Assets Without Donor Restrictions</b>	<b>211,703</b>	<b>55,312</b>
<b>Change in Net Assets With Donor Restrictions:</b>		
Contributions	5,325	4,911
Net assets released from restriction	(5,419)	(4,156)
<b>Change in Net Assets With Donor Restrictions</b>	<b>(94)</b>	<b>755</b>
<b>Change in Net Assets</b>	<b>211,609</b>	<b>56,067</b>
Net Assets - beginning of year	843,019	787,099
Distribution	(424)	(147)
<b>Net Assets - end of year</b>	<b>\$ 1,054,204</b>	<b>\$ 843,019</b>

See accompanying notes to consolidated financial statements.

**Mozilla Foundation and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
(In thousands)

*Years Ended December 31, 2021 and 2020*

	2021				2020			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 154,478	\$ 81,047	\$ 1,589	\$ 237,114	\$ 178,141	\$ 99,596	\$ 1,370	\$ 279,107
Information technology	21,846	2,306	65	24,217	27,755	2,959	58	30,772
Consultants	21,175	9,534	67	30,776	19,122	9,154	71	28,347
Advertising and promotion	234	6,146	116	6,496	160	7,478	132	7,770
Conferences, conventions, and meetings	54	83	-	137	3,393	2,101	-	5,494
Occupancy	4,996	2,399	4	7,399	7,511	3,754	-	11,265
Grants and donations	5,029	409	-	5,438	4,628	633	-	5,261
Events	770	9	2	781	256	41	6	303
Legal	-	2,447	7	2,454	1,092	1,248	7	2,347
Dues and subscriptions	2,011	1,809	-	3,820	2,399	3,293	-	5,692
Travel	93	42	1	136	1,632	954	27	2,613
Office expenses	1,379	852	25	2,256	2,104	1,184	25	3,313
Accounting and audit	-	1,912	-	1,912	-	1,729	-	1,729
Insurance	-	460	-	460	-	336	-	336
Depreciation and amortization	4,317	2,078	-	6,395	6,774	3,386	-	10,160
Other expenses	9,866	304	-	10,170	7,824	36,482	-	44,306
Expenses before income tax provision (benefit)	226,248	111,837	1,876	339,961	262,791	174,328	1,696	438,815
Provision for income tax expense (benefit)	33,141	15,852	27	49,020	1,850	872	18	2,740
Total expenses	\$ 259,389	\$ 127,689	\$ 1,903	\$ 388,981	\$ 264,641	\$ 175,200	\$ 1,714	\$ 441,555

See accompanying notes to consolidated financial statements.

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2021	2020
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 211,609	\$ 56,067
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	6,395	10,160
Net realized and unrealized (gain) loss on investments	1,919	(5,209)
Foreign currency exchange (gain) loss, net	(691)	(1,324)
Unrecognized tax positions	1,060	2,089
Deferred income taxes	(2,002)	(5,883)
Changes in assets and liabilities:		
Receivables	(9,462)	(4,069)
Prepaid expenses and other assets	(3,367)	6,862
Prepaid income taxes	3,213	7,702
Accounts payable and accrued expenses	(7,760)	(12,028)
Accrued compensation and benefits	(3,228)	(11,985)
Deferred revenue	1,714	(140)
Other liabilities	(4,154)	(2,036)
<b>Net cash provided by operating activities</b>	<b>195,246</b>	<b>40,206</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(296)	(2,057)
Purchases of investments	(648,167)	(526,584)
Proceeds from maturities and sales of investments	572,636	304,636
<b>Net cash used by investing activities</b>	<b>(75,827)</b>	<b>(224,005)</b>
<b>Cash Flows from Financing Activities:</b>		
Distribution	(424)	(147)
<b>Net cash used by financing activities</b>	<b>(424)</b>	<b>(147)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>997</b>	<b>821</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>119,992</b>	<b>(183,125)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>254,056</b>	<b>437,181</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 374,048</b>	<b>\$ 254,056</b>
<b>Supplemental Disclosure:</b>		
Cash paid for taxes, net of refunds	\$ 54,328	\$ (2,100)
Right-of-use assets recognized in exchange for lease liabilities	\$ 6,306	\$ -

See accompanying notes to consolidated financial statements.



# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 1 - Nature of the Organization:

Established in July 2003, 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 is headquartered in San Francisco, California.

As of December 31, 2021, the Foundation has two wholly-owned for-profit subsidiaries, Mozilla Corporation (the Corporation) and MZLA Technologies Corporation (MZLA) (together with the Foundation, collectively Mozilla). 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 San Francisco, California and has operations in Australia, Canada, China, New Zealand, 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 San Francisco, California.

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

#### a. Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of 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. Certain accounts in the 2020 financial statements have been reclassified for comparative purposes to conform with the 2021 presentation. These reclassifications had no effect on net assets or change in net assets.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### 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, 2021 and 2020.

### c. 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.

In March 2020, the World Health Organization (WHO) declared the outbreak of the novel coronavirus, COVID-19, a pandemic, which continues to spread across the globe. Mozilla considered the impact of COVID-19 on the assumptions and estimates used and determined that there were no material adverse impacts on the consolidated financial statements for the years ended December 31, 2021 and 2020. As events continue to evolve and additional information becomes available, Mozilla's assumptions and estimates may change materially in future periods.

### d. Foreign Currency

The functional currencies of Mozilla's foreign subsidiaries are the respective local currencies. Translation adjustments arising from the use of differing exchange rates from period to period and foreign currency transaction gains and losses are included in foreign currency exchange gain (loss) in the consolidated statement of activities and change in net assets. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average exchange rate during the period, and equity balances are translated using historical exchange rates.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

e. 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, 2021 and 2020.

f. 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. As of December 31, 2021 and 2020, Mozilla had an allowance of \$0.1 million and \$0.4, respectively.

Mozilla has \$1.8 million and \$2.3 million in grants receivable as of December 31, 2021 and 2020, respectively.

g. Investments

Investments consist of marketable securities and non-marketable equity investments and are recorded at fair value.

Marketable securities consisting of marketable debt securities, mutual funds, government issued securities, and hedge funds, are recorded 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. Gains and losses on investments are determined on the specific identification method.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

Non-marketable equity investments include direct and indirect investments into various early stage, high growth technology companies. The fair value of the non-marketable equity investments has been estimated using the NAV per share or ownership interest of the investment. Changes in fair value, including any distributions, are recognized on a current basis in the consolidated statement of activities and change in net assets. If an investment has no readily available information to determine the investment's respective fair value, under the measurement alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. Adjustments are determined primarily based on a market approach as of the transaction date in the consolidated statement of activities and change in net assets.

Non-marketable equity investments are included within "Investments" in the consolidated statement of financial position and were \$8.3 million and \$2.4 million as of December 31, 2021 and 2020, respectively.

### h. 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

i. 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 other items.

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.

j. Business Combinations

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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### k. Leases

Mozilla determines whether an arrangement is or includes a lease and categorizes leases as either operating or finance 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 finance 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.

Mozilla has subleased portions of its unoccupied leased office space. Similar to other long-lived assets discussed below, management tests ROU assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. For leased assets, such circumstances would include the decision to leave a leased facility prior to the end of the minimum lease term or subleases for which estimated cash flows do not fully cover the costs of the associated lease.

### l. 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.

Mozilla follows 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. There were no impairments to goodwill or intangible assets for the years ended December 31, 2021 and 2020.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

m. Long-Lived Assets

Mozilla evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Mozilla recognized impairment losses of \$0.7 million and \$0 for the years ended December 31, 2021 and 2020 related to the subleases of a portion of its San Francisco office space. Impairment losses are included within *other income, net* in the consolidated statement of activities and change in net assets.

n. Recognition of Revenue

Mozilla follows the requirements of *Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers* (Topic 606) which 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 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

- *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, performance obligations are satisfied* - 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 and VPN.
  - *Pocket Premium* - Pocket is a mobile and web application that enables users to save, manage and consume articles, videos, and other content from the internet. Pocket offers free and paid subscriptions (Pocket Premium) versions of its products. Customers who subscribe to Pocket Premium unlock access to additional Pocket features. Included in a Pocket Premium 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. Pocket Premium subscription is available on a month-to-month or annual basis.



# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

- *VPN* - In February 2020, Mozilla launched a new service called Mozilla VPN, which offers a virtual private network (VPN) to create a secure private internet connection for added security and to maintain privacy online. The VPN creates a “tunnel” between the customer’s device and the internet at large, concealing the IP address and obscures the customer’s location. It also encrypts the internet traffic so others on the same local network cannot decipher or modify it. The VPN subscription is available on a month-to-month, semi-annual or annual basis.
- *Advertising revenues* - Mozilla also offers advertising services in three formats. The first is the New Tab / Tiles 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 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. Financial information for the search engine and information providers with whom Mozilla contracts 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.

o. 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

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 \$12.7 million and \$11.7 million in contributions during the years ended December 31, 2021 and 2020, respectively, and has \$3.4 million and \$1.9 million in conditional promises as of December 31, 2021 and 2020, respectively, that are not recorded in these financial statements.

p. Software Development Costs

Mozilla primarily 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.

q. 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, 2021 and 2020 amounted to \$4.3 million and \$5.4 million, respectively, and is included in advertising and promotion on the statement of functional expenses.

r. Income Taxes

The Foundation qualifies as a public benefit charitable organization exempt from income taxes on income related to its charitable purpose 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.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

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, facilities, certain staff travel, certain office supplies and computer and technology, taxes, depreciation and amortization, and other indirect costs are allocated among program, management and general, and fundraising based on time estimates determined by Mozilla's management. All other costs are allocated directly to the functions they benefit.

t. Concentrations of Risk and Significant Customers

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

Approximately 83% and 86% of Mozilla's revenues from customers with contracts were derived from one customer for the years ended December 31, 2021 and 2020, respectively. Receivables from that one customer represented 69% and 73% of the December 31, 2021 and 2020 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and cash equivalents and investments. As of December 31, 2021 and 2020, 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.

u. Accounting Pronouncements

*Recently Adopted Accounting Pronouncements:*

In August 2018, the Financial Accounting Standards Board (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 adopted this standard for the fiscal year beginning January 1, 2020. The adoption of this standard did not have a significant impact on Mozilla's consolidated financial statements.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated 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 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 adopted this standard for the fiscal year beginning January 1, 2021. The adoption of this standard did not have a significant impact on Mozilla’s consolidated financial statements.

In March 2021, the FASB issued ASU No. 2021-03, *Intangibles - Goodwill and Other (Topic 350) Accounting Alternative for Evaluating Triggering Events*, provide private companies and not-for-profit entities with an accounting alternative to elect not to monitor for goodwill impairment triggering events during the reporting period and, instead, to evaluate the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. The amendments in this Update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Mozilla adopted this standard for the fiscal year beginning January 1, 2021. The adoption of this standard did not have a material impact on Mozilla's consolidated 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 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. Early adoption is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. Mozilla has reviewed the proposed simplifications to accounting for income taxes and has not early adopted during the tax year ended December 31, 2021. Mozilla is currently evaluating the impact of adopting this standard on its financial statements.

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Topic 606 as if the acquirer had originated the contracts. ASU 2021-08 is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2023. Mozilla is currently evaluating the effect, if any, the adoption of this guidance will have on its financial statements.

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

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

2021	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
Money market funds	\$ 25,077	\$ 25,077	\$ -	\$ -
<b>Total cash equivalents</b>	<b>25,077</b>	<b>25,077</b>	<b>-</b>	<b>-</b>
Marketable securities:				
Mutual funds				
Domestic	22,881	20,801	2,080	-
ETF: Minerals	610	610	-	-
Municipal bonds	2,998	-	2,998	-
U.S. governmental and agency securities	147,200	-	147,200	-
Foreign sovereign securities	17,352	-	17,352	-
Asset-backed securities	11,667	-	11,667	-
Corporate debt securities	437,672	-	437,672	-
<b>Total marketable securities</b>	<b>640,380</b>	<b>21,411</b>	<b>618,969</b>	<b>-</b>
Investments measured at net				
asset value as a practical expedient	10,699	-	-	-
<b>Total investments</b>	<b>\$ 651,079</b>	<b>\$ 21,411</b>	<b>\$ 618,969</b>	<b>\$ -</b>
<b>Total assets measured at fair value</b>	<b>\$ 676,156</b>	<b>\$ 46,488</b>	<b>\$ 618,969</b>	<b>\$ -</b>

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

2020	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
Money market funds	\$ 7,836	\$ 7,836	\$ -	\$ -
Commercial paper	77,944	-	77,944	-
<hr/>				
Total cash equivalents	85,780	7,836	77,944	-
<hr/>				
Marketable securities:				
Mutual funds				
Domestic	19,652	17,539	2,113	-
ETF: Minerals	637	637	-	-
Municipal bonds	3,119	-	3,119	-
U.S. governmental and agency securities	160,063	-	160,063	-
Asset-backed securities	33,745	-	33,745	-
Corporate debt securities	355,424	-	355,424	-
<hr/>				
Total marketable securities	572,640	18,176	554,464	-
<hr/>				
Investments measured at net asset value as a practical expedient	4,827	-	-	-
<hr/>				
Total investments	\$ 577,467	\$ 18,176	\$ 554,464	\$ -
<hr/>				
Total assets measured at fair value	\$ 663,247	\$ 26,012	\$ 632,408	\$ -

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 the years ended December 31, 2021 and 2020.

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

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

The following table provides information for investments using NAV to represent fair value as of December 31 (in thousands):

	2021		2020		Redemption Frequency	Notice Period
	# of Funds	Valuation	# of Funds	Valuation		
Global macro fund (a)	1	\$ 1,827	1	\$ 1,782	Monthly	90 Days
Feeder fund (b)	1	583	1	635	None	N/A
Specific investments (c)	15	5,945	18	970	None	N/A
Venture funds (d)	3	2,344	2	1,440	None	N/A
<b>Total</b>	<b>20</b>	<b>\$ 10,699</b>	<b>22</b>	<b>\$ 4,827</b>		

There were \$2.6 million and \$0.2 million in unfunded commitments as of December 31, 2021 and December 31, 2020, 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.
- (c) These are direct investments in various open source and security / privacy pre-seed funding round / early-stage companies, which are accounted for on a historical cost basis, less any impairments, as there is not readily available public information to determine fair value.
- (d) These venture funds make investments in various early-stage technology companies. Mozilla is a limited partner with no significant influence on the funds' investment strategies.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 4 - Property and Equipment:

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

	2021	2020	Useful Life (Years)
Computer equipment	\$ 5,003	\$ 13,588	2 - 3
Furniture and office equipment	3,058	7,254	3 - 7
Leasehold improvements	19,064	29,738	3 - 5
Software	59	57	1 - 3
<hr/>			
Gross property and equipment	27,184	50,637	
Less accumulated depreciation	(22,974)	(41,897)	
<hr/>			
Net property and equipment	\$ 4,210	\$ 8,740	

Depreciation and amortization expense, excluding amortization of goodwill and intangibles, amounted to \$3.5 million and \$7.0 million for the years ended December 31, 2021 and 2020, respectively.

Mozilla has recorded an asset retirement obligation liability of \$1.7 million and \$1.9 million as of December 31, 2021 and 2020, respectively. Mozilla recognized \$0.3 million and \$0.5 million in depreciation expense associated with the asset retirement obligation for the years ended December 31, 2021 and 2020, respectively.

### Note 5 - Goodwill:

Goodwill is amortized over an estimated useful life of 10 years. Amortization expense for the years ended December 31, 2021 and 2020 was \$2.6 million. Goodwill was as follows as of December 31 (in thousands):

	2021	2020	Estimated Useful Life (Years)
Goodwill	\$ 26,017	\$ 26,017	10
Less: Accumulated amortization	(10,407)	(7,805)	
<hr/>			
Total goodwill, net	\$ 15,610	\$ 18,212	



# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

### 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 were as follows as of December 31 (in thousands):

	2021	2020	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	801	15
<hr/>			
Gross intangible assets	4,501	4,501	
Less: Accumulated amortization	(3,820)	(3,485)	
<hr/>			
Total intangible assets, net	\$ 681	\$ 1,016	

Amortization expense for the years ended December 31, 2021 and 2020 was \$0.3 million and \$0.5 million, respectively. Estimated remaining amortization expense relating to intangible assets for each calendar year is as follows (in thousands):

Year ending December 31,

2022	93
2023	53
2024	53
2025	53
2026	53
Thereafter	376
<hr/>	
Total	\$ 681

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 7 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consisted of the following as of December 31 (in thousands):

	2021	2020
Leadership Development: Responsible Computer Science Challenge	\$ 2,881	\$ 1,604
Leadership Development: Mozilla Open Web Fellowships	877	1,250
Leadership Development: Mozilla Tech and Society Fellowships	902	1,737
Leadership Development: Mozilla Science Fellowships	-	39
Leadership Development: Mozilla MITI/OIE Fellowships	-	6
Leadership Development: Coil Open Internet	385	750
Leadership Development: Data Futures Lab	-	280
Movement Building: Africa Innovation Miradi	200	218
Movement Building: Common Voice	2,424	1,300
Movement Building: Policy Change	151	-
Thunderbird	-	730
Other	77	77
	<hr/>	<hr/>
	\$ 7,897	\$ 7,991

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

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

	2021	2020
Leadership Development: Responsible Computer Science Challenge	\$ 1,323	\$ 333
Leadership Development: Mozilla Science Fellowships	39	811
Leadership Development: Mozilla Open Web Fellowships	373	309
Leadership Development: Mozilla Tech and Society Fellowships	835	263
Leadership Development: Mozilla MITI/OIE Fellowships	6	325
Leadership Development: Coil Open Internet	365	175
Leadership Development: Data Futures Lab	780	220
Movement Building: Africa Innovation Miradi	268	32
Movement Building: Policy Change	151	-
Movement Building: Common Voice	501	-
Thunderbird	730	1,613
Other	48	75
	<u>\$ 5,419</u>	<u>\$ 4,156</u>

#### 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):

	2021	2020
United States	\$ 252,955	\$ 34,342
Foreign	7,674	24,465
	<u>\$ 260,629</u>	<u>\$ 58,807</u>

## Mozilla Foundation and Subsidiaries

### Notes to Consolidated Financial Statements

Mozilla's income tax provision (benefit) for the years ended December 31 consisted of the following (in thousands):

	2021			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	\$ 142	\$ 59	\$ -	\$ 201
Corporation	42,344	6,403	852	49,599
MZLA	179	-	-	179
Deferred provision (benefit)				
Corporation	(891)	(55)	(13)	(959)
<b>Total</b>	<b>\$ 41,774</b>	<b>\$ 6,407</b>	<b>\$ 839</b>	<b>\$ 49,020</b>

  

	2020			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	\$ 83	\$ 53	\$ -	\$ 136
Corporation	6,888	1,395	544	8,827
MZLA	60	3	-	63
Deferred provision (benefit)				
Corporation	(5,368)	(397)	(521)	(6,286)
<b>Total</b>	<b>\$ 1,663</b>	<b>\$ 1,054</b>	<b>\$ 23</b>	<b>\$ 2,740</b>

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, foreign operations, and state income taxes net of federal tax benefit.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

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

	2021	2020
Deferred tax assets:		
Foreign operating loss	\$ 5	\$ 33
Net operating loss	1,347	2,255
Credits	9,528	8,887
Accrued expenses and other reserves	11,610	11,841
Asset retirement obligations	249	110
Right-of-use liability	2,140	2,695
Property and equipment	624	663
State tax deduction	1,206	248
R&D capitalization	2,650	2,050
Unrealized loss	465	-
Other	1,849	2,169
<hr/>		
Total gross deferred tax assets	31,673	30,951
<hr/>		
Less valuation allowance	(9,528)	(8,921)
<hr/>		
Net deferred tax assets	22,145	22,030
<hr/>		
Deferred tax liabilities:		
Prepaid expense	(704)	(979)
Right-of-use asset	(1,875)	(2,493)
Unrealized gain or loss	-	(964)
Foreign deferred tax liabilities	(72)	(102)
<hr/>		
Total gross deferred tax liabilities	(2,651)	(4,538)
<hr/>		
Net deferred tax assets	\$ 19,494	\$ 17,492

As of December 31, 2021, Mozilla had approximately \$3.4 million of federal and \$9.4 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, 2021, Mozilla has federal and state research and development credit carryforwards of \$0.05 and \$14.8 million, respectively, available to offset future tax liabilities. If not utilized, the carryforwards will begin to expire in 2033 for federal and will not expire for state.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

Financial Interpretation (FIN) 48, now codified as ASC 740-10, 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. FIN 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

Mozilla's unrecognized tax benefits as of December 31, 2021, which are all with the Corporation, were as follows (in thousands):

	2021	2020
Unrecognized tax benefits	\$ 12,458	\$ 10,967

Mozilla also accrued potential penalties and interest of \$0.2 million and \$0.3 million related to these unrecognized tax benefits during the years ended December 31, 2021 and 2020, respectively, and in total, has recorded a liability for potential penalties and interest of \$0.9 million and \$0.7 million, as of December 31, 2021 and 2020, 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, 2021, the unrecognized tax benefit was \$12.5 million, of which \$6.6 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. In U.S. jurisdictions, the 2017 through 2021 tax years generally remain subject to examination by their respective authorities. In state jurisdictions, the 2017 through 2021 tax years generally remain subject to examination by their respective authorities. In foreign jurisdictions, the 2011 through 2021 tax years generally remain subject to examination by their respective tax 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 \$6.9 million and \$8.4 million for the years ended December 31, 2021 and 2020, respectively.

For certain other foreign locations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled \$2.3 million and \$3.3 million for the years ended December 31, 2021 and 2020, respectively.

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 10 - Commitments and Contingencies:

Included in cash and cash equivalents as of December 31, 2021 and 2020 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 San Francisco, CA, Portland, OR, Canada, Germany and France and have various expiration dates through 2026. Some leases have options to renew and certain leases are guaranteed by letters of credit. Lease expense for the years ended December 31, 2021 and 2020 totaled \$7.3 million and \$10.9 million, respectively.

Lease right-of-use assets and liabilities are recognized at the lease 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, 2021 and 2020, Mozilla had right-of-use assets of \$11.5 million and \$16.0 million, respectively, and lease liabilities related to its operating leases of \$12.8 million and \$16.9 million, respectively. 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 years ended December 31, 2021 and 2020, Mozilla paid \$6.3 million and \$10.0 million, respectively, in cash related to its operating leases. As of December 31, 2021 and 2020, the weighted-average remaining lease term was 2.6 years and 3.1 years, respectively, and the weighted-average discount rate related to Mozilla's operating leases were 2.98% and 3.5%.

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

Year Ending December 31,

2022	\$	6,544
2023		4,183
2024		1,370
2025		736
2026		368
<hr/>		
Total scheduled payments	\$	13,201

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

Operating lease amounts above do not include sublease income. Mozilla has entered into various sublease agreements with third parties for portions of its unused office spaces. Sublease income was \$0.2 million and \$0 for the years ended December 31 2021 and 2020, respectively. Under these agreements, Mozilla expects to receive sublease income of approximately \$2.9 million in the next two years.

### *Long-Term Service Arrangements*

Mozilla entered into service agreements with initial minimum commitments for cloud hosting services. In addition to the initial term, Mozilla has the option to extend the terms of the service agreements.

Future minimum purchase obligations under these long-term arrangements are as follows (in thousands):

Year Ending December 31,

2022	\$ 9,122
2023	15,525
2024	16,596
2025	17,528
2026	10,194
<hr/>	
Total contractual obligations	\$ 68,965

### *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. 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.



# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 11 - Restructuring:

In August 2020, the Corporation underwent a restructuring due to the ongoing pandemic and to accelerate focus on new product development and go-to-market activities. As part of the restructuring, Mozilla reduced its workforce, including closing of the operations of its Taiwan location. As a result, Mozilla accrued a total of \$36.1 million which included severance, benefits, and retention bonuses for terminated employees. These costs were expensed as incurred given Mozilla's history of providing compensation to involuntarily terminated employees.

### Note 12 - Related Party Transactions:

The Corporation and MZLA pay license fees per trademark license agreements with the Foundation. In January 2020, the trademark license agreement was amended between the Corporation and the Foundation, whereby, the Corporation will pay the Foundation a royalty payment based on the Corporation's annual royalties revenue. 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. The Corporation incurred \$19.9 million and \$16.3 million in license fees to the Foundation for the years ended December 31, 2021 and 2020, respectively.

The trademark license agreement between MZLA and the Foundation stipulates that MZLA will pay the Foundation a royalty payment based upon the revenue generated from certain products. MZLA paid \$0.084 million and \$0.064 million in license fees to the Foundation for the years ended December 31, 2021 and 2020, respectively.

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

The Foundation and Corporation also provide basic administrative services, IT support and legal services to MZLA under separate service agreements between the Foundation and MZLA and the Corporation and MZLA.

A China subsidiary of Mozilla Corporation made a distribution to its minority shareholder in the amount of \$0.4 million and \$0.1 million for the years ended December 31, 2021 and 2020, respectively. The amount is reported as a distribution on Mozilla's consolidated financial statements, but Mozilla Foundation itself did not make any distributions.

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

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 13 - Availability of Financial Assets and Liquidity:

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

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 378,266	\$ 256,628
Receivables	62,832	53,370
Investments	651,079	575,057
<u>Total financial assets</u>	<u>1,092,177</u>	<u>885,055</u>
Less amounts not available to be used within one year:		
Investments with liquidity restrictions	(8,872)	(3,045)
Other assets	(1,000)	(1,000)
Net assets with donor restrictions	(7,897)	(7,994)
Add net assets with purpose restrictions to be met in less than a year	5,725	4,940
<u>Total amounts not available to be used within one year</u>	<u>(12,044)</u>	<u>(7,099)</u>
Financial assets available to meet general expenditures over the next twelve months	\$ 1,080,133	\$ 877,956

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

# Mozilla Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 14 - Subsequent Events:

Mozilla evaluated subsequent events from December 31, 2021 through October 6, 2022, the date these financial statements were available to be issued. In May 2022, the Corporation issued a \$20 million distribution to the Foundation. These funds will be used to invest in two new Mozilla initiatives: Mozilla Ventures, which will invest in companies that have a strong purpose/product fit and will appeal to consumers or influence the tech industry; and Mozilla.ai, which will help open-source trustworthy AI projects to find traction and commercialize. Like Mozilla Corporation, these two new initiatives will be operated as independent subsidiaries of Mozilla Foundation. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.