

**MOZILLA FOUNDATION AND SUBSIDIARIES**

**DECEMBER 31, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT, AND  
CONSOLIDATED FINANCIAL STATEMENTS

# **Mozilla Foundation and Subsidiaries**

## **Independent Auditors' Report, and Consolidated Financial Statements**

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<b>Independent Auditors' Report</b>	1 - 2
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### **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 the Consolidated Financial Statements	7 - 32



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, 2022 and 2021, 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, 2022 and 2021, 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  
September 6, 2023

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 513,780	\$ 378,266
Receivables, net of allowance for doubtful accounts of \$152 and \$148, respectively	60,231	62,832
Prepaid expenses and other assets	25,969	31,899
Investments	631,124	651,079
Prepaid income taxes	4,196	391
Deferred taxes	69,207	19,494
Property and equipment, net	2,239	4,210
Goodwill, net	13,008	15,610
Intangible assets, net	1,785	681
<b>Total assets</b>	<b>\$ 1,321,539</b>	<b>\$ 1,164,462</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 16,441	\$ 16,097
Accrued liabilities	7,128	3,596
Accrued compensation and benefits	83,203	68,205
Deferred revenue	4,825	2,963
Other liabilities	12,095	19,397
<b>Total liabilities</b>	<b>123,692</b>	<b>110,258</b>
<b>Net Assets:</b>		
Without donor restrictions	1,189,196	1,046,307
With donor restrictions	8,651	7,897
<b>Total net assets</b>	<b>1,197,847</b>	<b>1,054,204</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,321,539</b>	<b>\$ 1,164,462</b>

See accompanying notes to the consolidated financial statements.

# Mozilla Foundation and Subsidiaries

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

<i>Years Ended December 31,</i>	2022	2021
<b>Net Assets Without Donor Restrictions:</b>		
Revenues and other support:		
Royalties	\$ 510,389	\$ 527,585
Subscription and advertising revenue	75,716	56,563
Other revenue	352	451
Interest and dividend income	9,408	5,719
Net realized and unrealized loss on investments	(19,078)	(1,445)
Contributions	9,391	7,398
Other income (expense), net	5,468	(1,694)
Foreign currency exchange gain (loss), net	(3,504)	688
Net assets released from restrictions	5,374	5,419
<b>Total revenue and support</b>	<b>593,516</b>	<b>600,684</b>
Expenses:		
Program:		
Software development	220,966	199,189
Other program services	34,863	27,059
Management and general:		
Branding and marketing	58,252	30,087
General and administrative	108,953	81,750
Fundraising:		
Fundraising and development	2,186	1,876
<b>Total expenses</b>	<b>425,220</b>	<b>339,961</b>
<b>Change in Net Assets Without Donor Restrictions before Provision for Income Taxes</b>	<b>168,296</b>	<b>260,723</b>
Provision for income tax expense	24,903	49,020
<b>Change in Net Assets Without Donor Restrictions</b>	<b>143,393</b>	<b>211,703</b>
<b>Change in Net Assets With Donor Restrictions:</b>		
Contributions	6,128	5,325
Net assets released from restriction	(5,374)	(5,419)
<b>Change in Net Assets With Donor Restrictions</b>	<b>754</b>	<b>(94)</b>
<b>Change in Net Assets</b>	<b>144,147</b>	<b>211,609</b>
Net Assets - beginning of year	1,054,204	843,019
Distribution	(504)	(424)
<b>Net Assets - end of year</b>	<b>\$ 1,197,847</b>	<b>\$ 1,054,204</b>

See accompanying notes to the consolidated financial statements.

## Mozilla Foundation and Subsidiaries

### Consolidated Statement of Functional Expenses (In thousands)

Years Ended December 31, 2022 and 2021

	2022				2021			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 171,307	\$ 110,767	\$ 1,665	\$ 283,739	\$ 154,478	\$ 81,047	\$ 1,589	\$ 237,114
Information technology	24,231	3,272	90	27,593	21,846	2,306	65	24,217
Consultants	26,079	12,537	51	38,667	21,175	9,534	67	30,776
Advertising and promotion	317	22,189	98	22,604	234	6,146	116	6,496
Conferences, conventions, and meetings	3,113	1,934	1	5,048	54	83	-	137
Occupancy	4,235	2,449	7	6,691	4,996	2,399	4	7,399
Grants and donations	4,491	938	-	5,429	5,029	409	-	5,438
Events	1,053	487	-	1,540	770	9	2	781
Legal	8	2,595	15	2,618	-	2,447	7	2,454
Dues and subscriptions	2,211	1,280	2	3,493	2,011	1,809	-	3,820
Travel	2,017	1,377	27	3,421	93	42	1	136
Office expenses	1,174	813	9	1,996	1,379	852	25	2,256
Accounting and audit	97	1,911	-	2,008	-	1,912	-	1,912
Insurance	-	744	-	744	-	460	-	460
Depreciation and amortization	2,845	1,671	-	4,516	4,317	2,078	-	6,395
Other expenses	12,651	2,241	221	15,113	9,866	304	-	10,170
Expenses before income tax provision	255,829	167,205	2,186	425,220	226,248	111,837	1,876	339,961
Provision for income tax expense	15,920	8,793	190	24,903	33,141	15,852	27	49,020
Total expenses	\$ 271,749	\$ 175,998	\$ 2,376	\$ 450,123	\$ 259,389	\$ 127,689	\$ 1,903	\$ 388,981

See accompanying notes to the consolidated financial statements.

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2022	2021
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 144,147	\$ 211,609
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	4,516	6,395
Net realized and unrealized (gain) loss on investments	30,045	1,919
Foreign currency exchange (gain) loss, net	8	(691)
Unrecognized tax positions	(790)	1,060
Deferred income taxes	(49,713)	(2,002)
Loss on disposal of assets	11	1,646
Changes in assets and liabilities:		
Receivables	2,601	(9,462)
Prepaid expenses and other assets	5,930	(3,367)
Prepaid income taxes	(3,805)	3,213
Accounts payable and accrued expenses	3,876	(7,760)
Accrued compensation and benefits	14,998	(3,228)
Deferred revenue	1,862	1,714
Other liabilities	(6,512)	(4,154)
Net cash provided by operating activities	147,174	196,892
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(34)	(296)
Purchases of investments	(201,168)	(648,167)
Proceeds from maturities and sales of investments	190,576	572,636
Purchase of intangible assets	(732)	-
Net cash used by investing activities	(11,358)	(75,827)
<b>Cash Flows from Financing Activities:</b>		
Distribution	(504)	(424)
Net cash used by financing activities	(504)	(424)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	202	997
<b>Net Change in Cash and Cash Equivalents</b>	135,514	121,638
<b>Cash and Cash Equivalents - beginning of year</b>	378,266	256,628
<b>Cash and Cash Equivalents - end of year</b>	\$ 513,780	\$ 378,266
<b>Supplemental Disclosure:</b>		
Cash paid for taxes, net of refunds	\$ 74,555	\$ 54,328
Right-of-use assets recognized in exchange for lease liabilities	\$ 6,442	\$ 6,306

See accompanying notes to the consolidated financial statements.



# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 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 grassroots activities around the world. The Foundation is headquartered in San Francisco, California and has operations in Canada, Germany, and the United Kingdom.

The Foundation has several wholly-owned for-profit subsidiaries that operate independently (together with the Foundation, collectively Mozilla) that serve its non-profit, public benefit goals and the vast Mozilla community. Mozilla Corporation (the Corporation) provides internet based open-source software and services (Mozilla Products) that are made available to hundreds of millions of users worldwide to fulfill Mozilla's mission to make the internet 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. MZLA Technologies Corporation (MZLA) promotes choice and innovation on the internet. MZLA is headquartered in San Francisco, California. Mozilla Ventures (Ventures) invests in startups pushing the internet – and the tech industry – in a better direction. MZL.AI (AI), is building a trustworthy open-source artificial intelligence ecosystem.

### 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). All significant intercompany accounts and transactions have been eliminated. Certain accounts in the 2021 financial statements have been reclassified for comparative purposes to conform with the 2022 presentation. These reclassifications had no effect on net assets or change in net assets.

#### 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 objectives of the Foundation.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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*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, 2022 and 2021.

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.

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.

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, 2022 and 2021.

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, 2022 and 2021, Mozilla had an allowance of \$0.2 million and \$0.1 million, respectively.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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Mozilla has \$3.7 million and \$1.8 million in grants receivable as of December 31, 2022 and 2021, 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.

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 \$15.9 million and \$8.3 million as of December 31, 2022 and 2021, 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 Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

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 typically 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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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### 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 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 at the end of each reporting period in which 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, 2022 and 2021.

### 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 \$0.0 million and \$0.7 million for the years ended December 31, 2022 and 2021, respectively, 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 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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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- *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, 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 the 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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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- *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.
- *VPN* - In February 2020, Mozilla launched a new service called Mozilla VPN, which offers a virtual private network (VPN) to allow users 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.



# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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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.

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 \$15.5 million and \$12.7 million in contributions during the years ended December 31, 2022 and 2021, respectively, and has \$1.6 million and \$3.4 million in conditional promises as of December 31, 2022 and 2021, 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, 2022 and 2021 amounted to \$18.0 million and \$4.3 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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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The Corporation, MZLA, Ventures and AI are all 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.

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 81% and 83% of Mozilla's revenues from customers with contracts were derived from one customer for the years ended December 31, 2022 and 2021, respectively. Receivables from that one customer represented 64% and 69% of the December 31, 2022 and 2021 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, 2022 and 2021, 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.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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### u. Accounting Pronouncements

#### *Recently Adopted Accounting Pronouncements:*

In August 2018, the FASB issued ASU No. 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 material impact on Mozilla’s 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 may be elected on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. 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 financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12) which modifies ASC 740 to simplify the accounting for income taxes. The amendments in ASU 2019-12 are effective for private businesses for fiscal years beginning after December 15, 2021. Mozilla adopted this accounting standard effective January 1, 2022. There was no impact on Mozilla’s tax provision as a result of adopting this standard.

#### *Recent Accounting Pronouncements Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). 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.

## Mozilla Foundation and Subsidiaries

### Notes to the 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):

<b>2022</b>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents:				
Money market funds	\$ 393,356	\$ 393,356	\$ -	\$ -
Commercial paper	18,766	-	18,766	-
<b>Total cash equivalents</b>	<b>412,122</b>	<b>393,356</b>	<b>18,766</b>	<b>-</b>
Marketable securities:				
Mutual funds				
Domestic	17,945	17,004	941	-
ETF: Minerals	606	606		-
Municipal bonds	13,080	-	13,080	-
U.S. governmental and agency securities	147,189	-	147,189	-
Foreign sovereign securities	16,928	-	16,928	-
Asset-backed securities	412,112	-	412,112	-
Corporate debt securities	4,741	-	4,741	-
<b>Total marketable securities</b>	<b>612,601</b>	<b>17,610</b>	<b>594,991</b>	<b>-</b>
Investments measured at net asset value as a practical expedient	18,523	-	-	-
<b>Total investments</b>	<b>\$ 631,124</b>	<b>\$ 17,610</b>	<b>\$ 594,991</b>	<b>\$ -</b>
<b>Total assets measured at fair value</b>	<b>\$ 1,043,246</b>	<b>\$ 410,966</b>	<b>\$ 613,757</b>	<b>\$ -</b>

## Mozilla Foundation and Subsidiaries

### Notes to the Consolidated Financial Statements

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>

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, 2022 and 2021.

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 the Consolidated Financial Statements

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

	2022		2021		Redemption Frequency	Notice Period
	# of Funds	Valuation	# of Funds	Valuation		
Global macro fund (a)	1	\$ 2,202	1	\$ 1,827	Monthly	90 Days
Feeder fund (b)	1	406	1	583	None	N/A
Specific investments (c)	20	9,580	15	5,945	None	N/A
Venture funds (d)	4	6,335	3	2,344	None	N/A
<b>Total</b>	<b>26</b>	<b>\$ 18,523</b>	<b>20</b>	<b>\$ 10,699</b>		

There were \$1.3 million and \$2.6 million in unfunded commitments as of December 31, 2022 and December 31, 2021, respectively.

- (a) This fund invests in its 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 its 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 the Consolidated Financial Statements

### Note 4 - Property and Equipment:

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

	2022	2021	Useful Life (Years)
Computer equipment	\$ 4,524	\$ 5,003	2 - 3
Furniture and office equipment	2,680	3,058	3 - 7
Leasehold improvements	16,071	19,064	3 - 5
Software	54	59	1 - 3
<hr/>			
Gross property and equipment	23,329	27,184	
Less accumulated depreciation	(21,090)	(22,974)	
<hr/>			
Net property and equipment	\$ 2,239	\$ 4,210	

Depreciation and amortization expense, excluding amortization of goodwill and intangibles, amounted to \$1.8 million and \$3.5 million for the years ended December 31, 2022 and 2021, respectively.

Mozilla has recorded an asset retirement obligation liability of \$1.5 million and \$1.7 million as of December 31, 2022 and 2021, respectively. Mozilla recognized \$0.2 million and \$0.3 million in depreciation expense associated with the asset retirement obligation for the years ended December 31, 2022 and 2021, respectively.

### Note 5 - Goodwill:

Goodwill is amortized over an estimated useful life of 10 years. Amortization expense for each of the years ended December 31, 2022 and 2021 was \$2.6 million. Goodwill was as follows as of December 31 (in thousands):

	2022	2021	Estimated Useful Life (Years)
Goodwill	\$ 26,017	\$ 26,017	10
Less accumulated amortization	(13,009)	(10,407)	
<hr/>			
Total goodwill, net	\$ 13,008	\$ 15,610	

# Mozilla Foundation and Subsidiaries

## Notes to the 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.

In November 2022, Mozilla acquired substantially all of the assets of Active Replica to build on Mozilla's existing virtual reality offering. Earlier in the year, Mozilla had previously invested in Active Replica via a "SAFE" (simple agreement for future equity) and maintained its investment on a historical cost / NAV basis. As a result of the transaction, a portion of the original investment was returned and was taken into consideration in the calculation of the acquired intangible asset.

In November 2022, Mozilla entered into an agreement to acquire substantially all of the assets of Pulse to expand on Mozilla's machine learning efforts.

Transaction costs, such as legal, are included in the calculation of the assets acquired amounts.

As Mozilla acquired both inputs and a process to create outputs, these transactions would normally be classified as business combinations. However, Mozilla elected to treat these transactions as asset acquisitions due to the immaterial differences in accounting treatment and the transaction amounts are immaterial to Mozilla's balance sheet. Mozilla elected to amortize the acquired intangibles over three years given the rapid technology development and obsolescence cycle.

Both transactions also included compensation to the employees of each company as an incentive to join Mozilla upon closing of the transactions. These amounts are excluded from the assets acquired amount as the compensation is contingent on tenure and employment at Mozilla subsequent to the transactions.

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

	2022	2021	Estimated Useful Life (Years)
User base	\$ 1,500	\$ 1,500	2
Trade names and trademark	1,200	1,200	5
Developed technology	2,232	1,000	3
Domain rights	801	801	15
Gross intangible assets	5,733	4,501	
Less accumulated amortization	(3,948)	(3,820)	
Total intangible assets, net	\$ 1,785	\$ 681	



## Mozilla Foundation and Subsidiaries

### Notes to the Consolidated Financial Statements

Amortization expense for the years ended December 31, 2022 and 2021 was \$0.1 million and \$0.3 million, respectively. Estimated remaining amortization expense relating to intangible assets for each calendar year is as follows (in thousands):

Year Ending December 31,

2023	\$	464
2024		464
2025		430
2026		53
2027		53
Thereafter		321
<hr/>		
Total	\$	1,785

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

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

	2022	2021
Leadership Development: Responsible Computer Science Challenge	\$ 2,960	\$ 2,881
Leadership Development: Mozilla Open Web Fellowships	1,750	877
Leadership Development: Mozilla Tech and Society Fellowships	23	902
Leadership Development: Coil Open Internet	175	385
Leadership Development: Data Futures Lab	1,660	-
Leadership Development: MozFest 2023	314	-
Movement Building: Africa Innovation Mradi	94	200
Movement Building: Common Voice	1,518	2,424
Movement Building: Policy Change	80	151
Other	77	77
<hr/>		
	\$ 8,651	\$ 7,897

## Mozilla Foundation and Subsidiaries

### Notes to the 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):

	2022	2021
Leadership Development: Responsible Computer Science Challenge	\$ 621	\$ 1,323
Leadership Development: Mozilla Science Fellowships	-	39
Leadership Development: Mozilla Open Web Fellowships	877	373
Leadership Development: Mozilla Tech and Society Fellowships	879	835
Leadership Development: Mozilla MITI/OIE Fellowships	-	6
Leadership Development: Coil Open Internet	210	365
Leadership Development: Data Futures Lab	590	780
Movement Building: Africa Innovation Mradi	105	268
Movement Building: Policy Change	70	151
Movement Building: Common Voice	1,920	501
Thunderbird	-	730
Other	102	48
	<u>\$ 5,374</u>	<u>\$ 5,419</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):

	2022	2021
United States	\$ 187,982	\$ 252,955
Foreign	(19,171)	7,674
	<u>\$ 168,811</u>	<u>\$ 260,629</u>

## Mozilla Foundation and Subsidiaries

### Notes to the Consolidated Financial Statements

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

	2022			
	Federal	State	Foreign	Total
Current provision				
Foundation	\$ 611	\$ 245	\$ -	\$ 856
Corporation	59,187	8,281	758	68,226
MZLA	868	3	-	871
Deferred benefit				
Corporation	(41,224)	(3,484)	(342)	(45,050)
<b>Total</b>	<b>\$ 19,442</b>	<b>\$ 5,045</b>	<b>\$ 416</b>	<b>\$ 24,903</b>

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

	2022	2021
Deferred tax assets:		
Foreign operating loss	\$ -	\$ 5
Net operating loss	1,093	1,347
Credits	8,997	9,528
Accrued expenses and other reserves	16,862	11,610
Asset retirement obligations	296	249
Right-of-use liability	1,447	2,140
Property and equipment	692	624
State tax deduction	1,861	1,206
R&D capitalization	42,156	2,650
Unrealized loss	5,128	465
Other	2,091	1,849
<hr/>		
Total gross deferred tax assets	80,623	31,673
<hr/>		
Less valuation allowance	(8,969)	(9,528)
<hr/>		
Net deferred tax assets	71,654	22,145
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Deferred tax liabilities:		
Prepaid expense	(1,017)	(704)
Right-of-use asset	(1,362)	(1,875)
Foreign deferred tax liabilities	(68)	(72)
<hr/>		
Total gross deferred tax liabilities	(2,447)	(2,651)
<hr/>		
Net deferred tax assets	\$ 69,207	\$ 19,494

As of December 31, 2022, Mozilla had approximately \$2.5 million of federal and \$8.0 million of state net operating loss carryforwards 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, 2022, Mozilla has federal and state research and development credit carryforwards of \$0.05 million and \$14.5 million, respectively, available to offset future tax liabilities. If not utilized, the carryforwards will begin to expire in 2034 for federal and will not expire for state.

# Mozilla Foundation and Subsidiaries

## Notes to the 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, which are all with the Corporation, were as follows as of December 31 (in thousands):

	2022	2021
Unrecognized tax benefits	\$ 12,111	\$ 12,458

Mozilla also accrued potential penalties and interest of \$0.3 million and \$0.2 million related to these unrecognized tax benefits during the years ended December 31, 2022 and 2021, respectively, and in total, has recorded a liability for potential penalties and interest of \$0.8 million and \$0.9 million, as of December 31, 2022 and 2021, 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 accrued liabilities 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, 2022, the unrecognized tax benefit was \$12.1 million, of which \$5.8 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 2022 tax years generally remain subject to examination by their respective authorities. In state jurisdictions, the 2017 through 2022 tax years generally remain subject to examination by their respective authorities. In foreign jurisdictions, the 2011 through 2022 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 \$8.9 million and \$6.9 million for the years ended December 31, 2022 and 2021, respectively.

For certain other foreign locations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled \$2.4 million and \$2.3 million for the years ended December 31, 2022 and 2021, respectively.

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

### Note 10 - Commitments and Contingencies:

Included in cash and cash equivalents as of December 31, 2022 and 2021 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 (expired in November 2022), 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, 2022 and 2021 totaled \$6.3 million and \$7.3 million, respectively.

Lease ROU 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, 2022 and 2021, Mozilla had ROU assets of \$5.9 million and \$11.5 million, respectively, and lease liabilities related to its operating leases of \$6.3 million and \$12.8 million, respectively. ROU 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, 2022 and 2021, Mozilla paid \$6.4 million and \$6.3 million, respectively, in cash related to its operating leases. As of December 31, 2022 and 2021, the weighted-average remaining lease term was 2.0 years and 2.6 years, respectively, and the weighted-average discount rate related to Mozilla's operating leases was 2.57% and 2.98%, respectively.

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

Year Ending December 31,

2023	\$	4,089
2024		1,293
2025		690
2026		345
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Total scheduled payments		6,417
Less discount to present value		(115)
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Present value of lease liability	\$	6,302

# Mozilla Foundation and Subsidiaries

## Notes to the Consolidated Financial Statements

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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 \$1.7 million and \$0.2 for the years ended December 31 2022 and 2021, respectively. Under these agreements, Mozilla expects to receive sublease income of approximately \$1.1 million in the next year.

### *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,

2023	\$ 15,525
2024	16,596
2025	17,528
2026	10,194
<hr/>	
Total contractual obligations	\$ 59,843

### *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 the Consolidated Financial Statements

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#### Note 11 - Related Party Transactions:

The Corporation and MZLA pay license fees per trademark license agreements with the Foundation. The Corporation pays the Foundation a royalty payment based on the Corporation's annual royalties revenue. The Corporation incurred \$19.1 million and \$19.9 million in license fees to the Foundation for the years ended December 31, 2022 and 2021, 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 \$0.195 million and \$0.084 million in license fees to the Foundation for the years ended December 31, 2022 and 2021, respectively.

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

A China subsidiary of Mozilla Corporation made a distribution to its minority shareholder in the amount of \$0.5 million and \$0.4 million for the years ended December 31, 2022 and 2021, 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 the Consolidated Financial Statements

### Note 12 - 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):

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 513,780	\$ 378,266
Receivables	60,231	62,832
Investments	631,124	651,079
<hr/>		
Total financial assets	1,205,135	1,092,177
Less amounts not available to be used within one year:		
Investments with liquidity restrictions	(16,321)	(8,872)
Other assets	(1,000)	(1,000)
Net assets with donor restrictions	(8,651)	(7,897)
Add net assets with purpose restrictions to be met in less than a year	7,221	5,725
<hr/>		
Total amounts not available to be used within one year	(18,751)	(12,044)
<hr/>		
Financial assets available to meet general expenditures over the next twelve months	\$ 1,186,384	\$ 1,080,133
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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 the Consolidated Financial Statements

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### **Note 13 - Subsequent Events:**

Mozilla evaluated subsequent events from December 31, 2022 through September 6, 2023, the date these financial statements were available to be issued. In April 2023, Mozilla acquired Fakespot, Inc., which provides consumers a service to identify fake reviews on e-commerce sites using machine learning technology. Mozilla obtained 100% of Fakespot's outstanding stock for an amount equating to less than 5% of total assets of Mozilla on the date of the acquisition. In May 2023, Mozilla filed legal claims against Beijing Mozilla Firefox Information Technology, Ltd. (Mozilla Online) with the long-term intent to wind down its operations in China. The contract recently expired between Mozilla Corporation and Mozilla Online. Although both parties attempted to negotiate a renewal in good faith, an agreement has not been reached. In June 2023, the Corporation issued a \$35 million distribution to the Foundation, which it in turn used to further invest in Ventures and AI. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.