

MOZILLA FOUNDATION  
AND SUBSIDIARIES

DECEMBER 31, 2008 AND 2007

---

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# **Mozilla Foundation and Subsidiaries**

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

---

<b>Independent Auditors' Report</b>	<b>1</b>
<b>Consolidated Financial Statements</b>	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities and Change in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 15

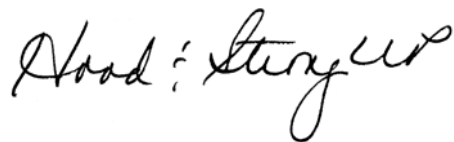
**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
MOZILLA FOUNDATION  
Mountain View, California

We have audited the accompanying consolidated statement of financial position of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)** as of December 31, 2008 and 2007 and the related consolidated statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of Mozilla's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mozilla Foundation and Subsidiaries as of December 31, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 4, 2009

*Consultants and  
Business Advisors*

*100 First Street*

*14<sup>th</sup> Floor*

*San Francisco*

*CA 94105*

*415.781.0793*

*fax 415.421.2976*

*San Francisco*

*San Jose*

*Redwood Shores*



# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Financial Position

<i>December 31,</i>	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 20,994,445	\$ 18,686,618
Receivables	9,185,281	7,329,390
Prepaid expenses	1,852,123	1,095,168
Prepaid income taxes	761,866	
Investments	78,662,349	68,847,453
Deferred taxes	1,758,428	1,396,729
Furniture and equipment, net	1,871,662	1,618,006
Deposits	540,952	381,415
<b>Total assets</b>	<b>\$ 115,627,106</b>	<b>\$ 99,354,779</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 3,997,316	\$ 1,766,987
Income taxes payable	22,112	495,153
Unrecognized income tax benefits	17,172,500	14,832,000
<b>Total liabilities</b>	<b>21,191,928</b>	<b>17,094,140</b>
<b>Net Assets:</b>		
Unrestricted	94,380,372	82,255,557
Temporarily restricted	54,806	5,082
<b>Total net assets</b>	<b>94,435,178</b>	<b>82,260,639</b>
<b>Total liabilities and net assets</b>	<b>\$ 115,627,106</b>	<b>\$ 99,354,779</b>

## Mozilla Foundation and Subsidiaries

### Consolidated Statement of Activities and Change in Net Assets

<i>Years Ended December 31,</i>	2008	2007
<b>Unrestricted Net Assets:</b>		
Revenues and other support:		
Royalties	\$ 83,600,300	\$ 70,035,553
Contributions	47,638	47,143
Interest and dividend income	2,704,415	3,264,249
Net realized and unrealized (loss) gain from investments	(7,754,763)	1,778,695
<b>Total revenue and support</b>	<b>78,597,590</b>	<b>75,125,640</b>
Expenses:		
Program:		
Program services	2,141,877	1,152,330
Software development	31,260,132	20,735,583
Support:		
Branding and marketing	6,242,970	6,332,459
General and administrative	9,751,210	5,107,483
<b>Total expenses</b>	<b>49,396,189</b>	<b>33,327,855</b>
<b>Change in Unrestricted Net Assets before Provision for Income Taxes</b>	<b>29,201,401</b>	<b>41,797,785</b>
Provision for income taxes	17,076,586	17,324,178
<b>Change in Unrestricted Net Assets</b>	<b>12,124,815</b>	<b>24,473,607</b>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	49,724	5,082
<b>Change in Net Assets</b>	<b>12,174,539</b>	<b>24,478,689</b>
<b>Net Assets - beginning of year</b>	<b>82,260,639</b>	<b>57,781,950</b>
<b>Net Assets - end of year</b>	<b>\$ 94,435,178</b>	<b>\$ 82,260,639</b>

# Mozilla Foundation and Subsidiaries

## Consolidated Statement of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 12,174,539	\$ 24,478,689
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	1,047,397	836,050
Net realized and unrealized gain on investments	7,754,763	(1,778,695)
Change in deferred taxes	(361,699)	(192,435)
Loss on disposal of fixed assets		1,188
Changes in assets and liabilities:		
Receivables	(1,855,891)	(496,199)
Prepays	(1,518,821)	(384,098)
Deposits	(159,537)	(265,798)
Accounts payable and accrued expenses	2,230,329	(550,310)
Income taxes payable	(473,041)	486,690
Unrecognized income tax benefits	2,340,500	791,000
<b>Net cash provided by operating activities</b>	<b>21,178,539</b>	<b>22,926,082</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of furniture and equipment	(1,301,053)	(1,170,122)
Purchases of investments	(63,002,049)	(83,643,254)
Proceeds from sale of investments	45,432,390	67,417,000
<b>Net cash used by investing activities</b>	<b>(18,870,712)</b>	<b>(17,396,376)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,307,827</b>	<b>5,529,706</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>18,686,618</b>	<b>13,156,912</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 20,994,445</b>	<b>\$ 18,686,618</b>
<b>Supplemental Disclosure:</b>		
Cash paid for income taxes	\$ 16,262,380	\$ 16,140,000

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

### Note 1 - Nature of the Organization:

Established in July 2003, the Mozilla Foundation (the Foundation) is a California not-for-profit corporation that exists to provide organizational, legal, and financial support for the Mozilla open-source software project. The Foundation's purpose is to develop open source, standards compliant, free Internet applications that will be useable free of charge to tens of millions of users. In addition, its purpose is to develop foundational technologies that will be used by content and software developers to develop standards compliant online content and open source internet software.

In August 2005, the Foundation launched a wholly owned subsidiary, the Mozilla Corporation (the Corporation.) The Corporation is a taxable subsidiary that serves the non-profit, public benefit goals of its parent, the Foundation, and is responsible for product development, marketing and distribution of Mozilla products. In 2007 and 2008, the Corporation has formed wholly-owned subsidiaries in China and Denmark to further its mission in those locations. In addition, it established a third wholly owned subsidiary to operate branch offices in foreign locations. To date, that includes an office in New Zealand.

In February 2008, the Foundation created another for-profit wholly-owned subsidiary, Mozilla Messaging, which develops and markets its email application, Thunderbird. Mozilla Messaging operates out of Canada.

Mozilla Europe and Mozilla Japan are independent organizations contracted by the Corporation to provide marketing and development services and promote the use of Mozilla products in their respective geographic regions. They have been granted the right to use the Mozilla name by the Foundation. Neither the Foundation nor the Corporation have any controlling interest in these organizations.

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

#### a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### b. Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the Corporation (collectively Mozilla.) All significant intercompany transactions have been eliminated.

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

c. Basis of Presentation

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

*Unrestricted net assets* represent unrestricted resources available to support the operations and temporarily restricted resources which become available for use by Mozilla in accordance with the intentions of donors.

*Temporarily restricted net assets* represent contributions that are limited in use by the Foundation in accordance with temporary donor imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Foundation classifies the support as unrestricted.

*Permanently restricted net assets* represent contributions to be held in perpetuity as directed by the donor. The Foundation does not have any permanently restricted net assets.

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, Mozilla considers its operating checking accounts to be cash and cash equivalents.

e. Receivables

Receivables consist primarily of amounts due from contracts with multiple search engine and information providers, and are carried at original invoice amount. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2008 and 2007, management has deemed all amounts to be fully collectible. Therefore, no allowance has been deemed necessary for any receivables.

f. Investments

Investments, which consist of money funds, marketable equity and debt securities, mutual funds, and various government issued securities, are stated at fair value, based upon quoted market prices. Changes in fair value are recognized on a current basis in the statement of activities.



# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

g. Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated over the estimated useful lives of the related assets, generally three 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.

h. Recognition of Revenue

Mozilla receives royalty income from contracts with various search engine and information providers. Revenue from these contracts is determined by the search engine and information provider based upon its activity. In addition, Mozilla receives royalties from the sale of various products on its website. Mozilla records revenue based upon the amounts received, with the revenue recorded on the accrual basis.

i. Contributions

Contributions are recorded at fair value when the donor makes an unconditional promise to give. Contributions collected by third parties are recorded as revenue when received by the third party. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized.

j. Software Development Costs

Mozilla develops open source software which is available free of charge to users. In addition, due to the open source nature of the development, there is generally no passage of time between achievement of technological feasibility and the availability for general release. Therefore, Mozilla expenses the cost of software development as incurred.

k. Advertising Costs

Mozilla expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2008 and December 31, 2007, amounted to \$958,988 and \$1,068,406, respectively.

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

l. Grants

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

m. Income Taxes

In July 2004, the Foundation received its advance ruling as a public benefit charitable organization exempt from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the California Revenue and Taxation Code. See note 10.

Mozilla follows Financial Accounting Standards Board (FASB) Financial Interpretation No. 48, (FIN 48) *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109.

The Corporation and Messaging are both C corporations. Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. The differences relate primarily to state taxes, prepaid and accrued expenses. Valuations are established when necessary to reduce deferred tax assets to the amount expected to be realized.

n. Foreign Currency Translation

The financial statements of the foreign subsidiaries, which have defined their functional currency as their local currency, translate their balance sheet accounts at the current exchange rate, and translate their income statement items at the average exchange rate for the year. The resulting translation adjustments are included as general and administrative expense in the consolidated Statement of Activities.

o. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Actual results could differ from those estimates.

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

p. Functional Expenses

Expenses are allocated to functional areas based on management's estimates. There were no direct fundraising expenses incurred and the incidental expenses, such as the website, were immaterial. Program services include costs related to furthering the Mozilla open-source project. Grants totaling \$505,621 and \$690,293 are included in program services for 2008 and 2007, respectively.

q. Reclassifications

Certain 2007 amounts have been reclassified to be consistent with the 2008 presentation. There was no effect on net assets or changes in net assets as a result of these reclassifications.

r. New Accounting Pronouncements Not Yet Effective

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 165 "Subsequent Events" (SFAS 165). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Mozilla does not expect the adoption of SFAS 165 to have a material effect on the financial statements.

### Note 3 - Investments

At December 31, 2008 and 2007 investments consist of the following:

	2008	2007
Money Market Funds	\$ 37,737,799	\$ 4,764,006
Equities	9,689,628	15,698,996
Mutual Funds - fixed income	3,370,794	3,603,246
Government Bonds	1,095,669	4,995,856
Commercial Paper	4,189,440	10,176,249
US Agency Funds	14,007,111	1,593,422
Municipal Bonds	2,483,201	13,994,373
Mortgage and Asset Back Securities	4,132,924	2,906,131
Corporate Debentures	1,955,783	11,115,174
	<hr/>	<hr/>
	\$ 78,662,349	\$ 68,847,453

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

### Note 4 - Fair Value Measurements:

Mozilla adopted SFAS No. 157 *Fair Value Measurements* on January 1, 2008. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis.

SFAS No. 157 establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those fair value measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Observable inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs that are not corroborated by market data.

The table below presents assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2008:

	Total	Level 1	Level 2
Money Market Funds	\$ 37,737,799	\$ 37,737,799	
Equities	9,689,628	9,689,628	
Mutual Funds - fixed income	3,370,794		\$ 3,370,794
Government Bonds	1,095,669		1,095,669
Commercial Paper	4,189,440		4,189,440
U.S. Agency Funds	14,007,111		14,007,111
Municipal Bonds	2,483,201		2,483,201
Mortgage and Asset Back Securities	4,132,924		4,132,924
Corporate Debentures	1,955,783		1,955,783
	<u>\$ 78,662,349</u>	<u>\$ 47,427,427</u>	<u>\$ 31,234,922</u>

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

### Fair Value of Other Financial Instruments

The fair value of financial instruments which are not measured at fair value on a recurring basis approximates the carrying value due to the short term nature of these financial instruments.

### **Note 5 - Furniture and Equipment:**

Furniture and equipment as of December 31, 2008 and 2007 are as follows:

	2008	2007	Useful Life (Years)
Computer equipment	\$ 3,681,673	\$ 2,508,836	3
Furniture and office equipment	444,170	336,818	5-7
Leasehold improvements	59,324	59,324	4
Software	367,871	347,007	3
	4,553,038	3,251,985	
Less accumulated depreciation	(2,681,376)	(1,633,979)	
<b>Net furniture and equipment</b>	<b>\$1,871,662</b>	<b>\$ 1,618,006</b>	

### **Note 6 - Income Taxes:**

Mozilla's income tax provision consists of the following:

	2008			
	Federal	State	Foreign	Total
Current provision	\$ 13,849,763	\$ 3,395,795	\$ 190,956	\$ 17,436,514
Deferred (benefit)	(30,416)	(39,202)	(290,310)	(359,928)
<b>Total</b>	<b>\$ 13,819,347</b>	<b>\$ 3,356,593</b>	<b>\$ (99,354)</b>	<b>\$ 17,076,586</b>

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

	2007		
	Federal	State	Total
Current provision	\$ 13,917,870	\$ 3,709,582	\$ 17,627,452
Deferred (benefit) provision	(229,276)	(73,998)	(303,274)
Total	\$ 13,688,594	\$ 3,635,584	\$ 17,324,178

---

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

	2008	2007
Total assets	\$ 1,846,645	\$ 1,525,669
Total liabilities	(88,217)	(128,940)
	\$ 1,758,428	\$ 1,396,729

---

Mozilla has not provided for U.S. deferred taxes on its undistributed earnings for non-U.S. subsidiaries because these earnings are intended to be permanently invested in operations outside the United States.

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

	2008	2007
Balance at January 1	\$ 14,832,000	\$ 14,041,000
Increases related to current year tax positions	711,000	
Increases related to prior year tax positions	1,629,500	791,000
Balance at December 31	\$ 17,172,500	\$ 14,832,000

---

Mozilla also accrued potential penalties and interest of \$730,500 related to these unrecognized tax benefits during 2008, and in total, as of December 31, 2008, Mozilla has recorded a liability for potential penalties and interest of \$2,312,500. Mozilla recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying statement of activities. Accrued interest and penalties are included within the related tax liability line in the statement of financial position.

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

Mozilla files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. All tax years generally remain subject to examination by federal and most state tax authorities. In foreign jurisdictions, the 2007 through 2008 tax years generally remain subject to examination by their respective tax authorities.

The Internal Revenue Service (IRS) is currently examining the Foundation and Corporation federal tax returns for the years 2004 through 2007. Mozilla does not expect the examinations to be completed within the next twelve months. Therefore Mozilla does not anticipate any significant impact to its unrecognized tax benefit balance in 2009.

### **Note 7 - Retirement Plan:**

The Foundation and the Corporation have defined contribution plans covering substantially all employees. The Foundation and the Corporation contribute an amount equal to 3% of the employee's qualified salary plus an additional discretionary percent of their qualified salary. Contributions to the plans totaled \$938,777 and \$678,154 for 2008 and 2007.

### **Note 8 - Concentrations of Risk:**

Mozilla has a contract with a search engine provider for royalties which expires in November 2011. The contract was recently amended and extended to November 2011. Approximately 91% and 94% of Mozilla's revenue for 2008 and 2007, respectively, was derived from this contract. The receivable from this search engine provider represented 80% and 86% of the December 31, 2008 and 2007 outstanding receivables, respectively

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and investments. At December 31, 2008, essentially all of the cash and investments are in excess of the federally insured limits.

In addition, investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address these risks, Mozilla maintains an investment policy that sets out performance criteria, investment, and asset allocation guidelines.

# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

### Note 9 - Commitments:

The Corporation leases office space under leases which expire through January 2014. The corporation provides space to the Foundation at no charge. Rent expense for 2008 and 2007 totaled \$657,937 and \$650,849, respectively. Future minimum lease commitments, as follows, are comprised of facilities in the U.S, Canada, New Zealand, China, and includes all base rent and operating expenses:

Year Ended,	
2009	\$ 2,342,138
2010	3,017,421
2011	3,020,355
2012	3,118,166
2013	2,961,973
2014	505,345
	<hr/>
	\$ 14,965,398

### Note 10 - Contingencies:

The IRS is currently conducting audits of both the Foundation and the Corporation.

The IRS began an examination of the Mozilla Foundation's 2004 and 2005 tax years in November 2007. In September 2008, the IRS notified the Foundation of its intent to seek guidance from the IRS National Office regarding the Foundation's classification of its search revenue and certain other classification issues. The Foundation responded in December 2008.

As of October 31, 2009, the IRS has not provided the Foundation any substantive response to the Mozilla Foundation response of December 2008. The IRS continues to gather basic information about the Foundation's activities for the periods under audit, and has included the calendar years 2006 and 2007 in the audit.

The Foundation has an advance ruling as a publicly supported organization. The ruling period ended December 31, 2007. It submitted its public support test documentation as required by the advance ruling. While the Foundation did not automatically qualify as a public charity with public support at 33% of total support, it believes that it qualifies as a public charity under the facts and circumstances test with public support over 10%. If it does not pass the public support test, the Foundation would be ruled to be a private foundation.



# Mozilla Foundation and Subsidiaries

## Notes to Financial Statements

---

On March 9, 2009 the IRS issued a letter to the Foundation confirming that donors and contributors may continue to treat the Mozilla Foundation as a public charity while the examination is in process. As of October 31, 2009, it has not provided the Foundation with any clear guidance as to how long it will take to complete its examination, whether it will request guidance from the National Office, what remaining areas it wishes to investigate, or what challenges it will ultimately make to the Foundation's revenue and other classifications. We do not expect any definitive resolutions to the issues before December 31, 2009.

The IRS is also examining the Corporation's federal tax returns for the years 2005 through 2007 and has challenged certain deductions. The Corporation has appealed the challenge.

Management believes that adequate provision has been made in the financial statements for any of the above items and any adverse results would not have a material impact on the statement of financial position or change in net assets.