

MOZILLA FOUNDATION
AND SUBSIDIARIES

DECEMBER 31, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Mozilla Foundation and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements

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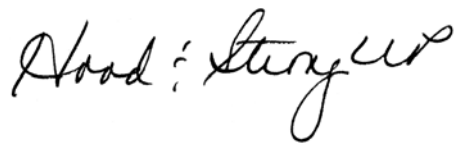
Independent Auditors' Report

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, 2009 and 2008 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 audits 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, 2009 and 2008, and the change 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.



August 23, 2010

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Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2009	2008
Assets		
Cash and cash equivalents	\$ 31,734	\$ 20,995
Receivables	12,211	9,185
Prepaid expenses	810	1,670
Prepaid income taxes	56	762
Investments	91,296	78,662
Deferred taxes	1,679	1,758
Furniture and equipment, net	4,912	2,054
Deposits	423	541
Total assets	\$ 143,121	\$ 115,627
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,196	\$ 3,997
Income taxes payable	321	22
Deferred revenue	300	
Unrecognized income tax benefits	16,695	17,173
Total liabilities	22,512	21,192
Net Assets:		
Unrestricted	120,436	94,380
Temporarily restricted	173	55
Total net assets	120,609	94,435
Total liabilities and net assets	\$ 143,121	\$ 115,627

Mozilla Foundation and Subsidiaries

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

<i>Years Ended December 31,</i>	2009	2008
Unrestricted Net Assets:		
Revenues and other support:		
Royalties	\$ 101,537	\$ 83,600
Interest and dividend income	1,034	2,704
Net realized and unrealized loss from investments	(104)	(7,755)
Foreign currency exchange gain (loss)	1,814	(860)
Loss on sale of assets	(81)	
Contributions	50	48
Net assets released from restrictions	55	
Total unrestricted revenue and support	104,305	77,737
Expenses:		
Program:		
Program services	1,007	1,729
Software development	40,206	31,260
Support:		
Branding and marketing	7,336	6,243
General and administrative	12,609	9,304
Total expenses	61,158	48,536
Change in Unrestricted Net Assets before Provision for Income Taxes	43,147	29,201
Provision for income taxes	17,091	17,077
Change in Unrestricted Net Assets	26,056	12,124
Change in Temporarily Restricted Net Assets:		
Contributions	173	50
Net assets released from restriction	(55)	
Change in Temporarily Restricted Net Assets	118	50
Change in Net Assets	26,174	12,174
Net Assets - beginning of year	94,435	82,261
Net Assets - end of year	\$ 120,609	\$ 94,435

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	\$ 26,174	\$ 12,174
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	1,780	1,047
Net realized and unrealized loss on investments	104	7,755
Foreign currency exchange (gain) loss	(1,814)	860
Unrecognized income tax benefits	(478)	2,341
Change in deferred taxes	79	(361)
Loss on sale of assets	81	
Changes in assets and liabilities:		
Receivables	(3,026)	(1,856)
Prepays	1,566	(1,519)
Deposits	118	(159)
Accounts payable and accrued expenses	1,302	2,230
Income taxes payable	299	(473)
Deferred revenue	300	
Net cash provided by operating activities	26,485	22,039
Cash Flows from Investing Activities:		
Purchases of furniture and equipment	(4,861)	(1,301)
Purchases of investments	(115,160)	(63,002)
Proceeds from sale of investments	102,422	45,432
Net cash used by investing activities	(17,599)	(18,871)
Effect of Exchange Rate Changes on Cash	1,853	(860)
Net Increase in Cash and Cash Equivalents	10,739	2,308
Cash and Cash Equivalents - Beginning of year	20,995	18,687
Cash and Cash Equivalents - End of year	\$ 31,734	\$ 20,995
Supplemental Disclosure:		
Cash paid for income taxes	\$ 16,218	\$ 16,262
Non-Cash Investing Activities		
Purchases of furniture and equipment	\$ 157	

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 - Nature of the Organization:

Established in July 2003, the Mozilla Foundation (the Foundation) is a California not-for-profit corporation that exists to 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.

The Foundation has two wholly-owned for-profit subsidiaries, Mozilla Corporation and Mozilla Messaging. The Corporation serves the non-profit, public benefit goals of its parent and is responsible for product development, marketing and distribution of Mozilla products. The Corporation has wholly-owned subsidiaries in China, Denmark, and Canada to further its mission in those locations. It also has a subsidiary to operate branch offices in foreign locations. To date, that includes an office in New Zealand.

Mozilla Messaging (Messaging) furthers the goals of its parent by organizing the development and marketing of free, open source email and messaging products and technologies. 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. The Mozilla Europe marketing and development services relationship was concluded at the end of 2008.

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, the Corporation and Messaging (collectively Mozilla). All significant intercompany transactions have been eliminated.

Mozilla Foundation and Subsidiaries

Notes to Consolidated 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.

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 and sweep accounts to be cash and cash equivalents.

e. Receivables

Receivables consist primarily of amounts due from contracts with multiple search engine and information providers, and 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 2009 and 2008, 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 market 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. Alternative investments include various hedge funds. The fair values of these investments have been estimated using the net asset value per share or ownership interest of the investment.

Mozilla Foundation and Subsidiaries

Notes to Consolidated 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. Fair Value Measurements

Mozilla follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 *Fair Value Measurements and Disclosures*. The standard prioritized the use of market-based information and established a three-level hierarchy based on transparency of information, such as the pricing source, used in the valuation of the asset or liability. As required by the standard, assets and liabilities carried at fair value on a recurring basis are classified in one of the following three-level hierarchy categories:

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

Level 2: Observable inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data.

i. 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.

j. 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.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

k. 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.

l. Advertising Costs

Mozilla expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2009 and December 31, 2008, amounted to \$801,000 and \$959,000, respectively.

m. Grants

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

n. 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 12 for current status. The Foundation provides for tax, if any, on unrelated business income.

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.

Mozilla follows the accounting standard for accounting for uncertainty in income taxes.

o. 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 other revenue and support in the consolidated Statement of Activities.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

p. 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.

q. 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 \$136,000 and \$506,000 are included in program services for 2009 and 2008, respectively.

r. Reclassifications

Certain 2008 amounts have been reclassified to be consistent with the 2009 presentation. There was no effect on net assets or changes in net assets as a result of these reclassifications.

s. Subsequent Events

Mozilla has reviewed the results of operations for the period of time from its fiscal year ended December 31, 2009 through August 23, 2010, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

t. Recent Accounting Pronouncements

Adopted:

On June 30, 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification* (Codification). The Codification is the source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification does not change accounting principles generally accepted in the United States of America and had no effect on Mozilla's financial position or results of operations.

In April 2009, FASB issued ASC Topic 820-10-35, 50, and 55 as an amendment to ASC Topic 820, *Fair Value Measurements and Disclosures*. Among other items it defined major category as related to the disclosure of investments in the fair value hierarchy. Mozilla has adopted the disclosure requirements in the financial statements as of December 31, 2009.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

In September 2009, FASB issued FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share*. This update amends Subtopic 820-10, *Fair Value Measurements and Disclosures — Overall*, to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This update to ASC 820 also requires new disclosures, by major category of investments, about the attributes of investments within the scope of this amendment to the Codification. Mozilla adopted ASU 2009-12 in the preparation of the financial statements as of December 31, 2009.

Pronouncements effective in the future:

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update provided amendments that require new disclosures of (a) transfers in and out of Levels 1 and 2 to include reasons for the transfers as well and (b) reconciliation for fair value measurements using significant unobservable inputs (Level 3) should be presented separately on a gross basis, rather than as one net number. This update also provided amendments that clarify existing disclosures such as the level of disaggregation for each class of assets and liabilities as well as disclosures about inputs and valuation techniques. Mozilla does not believe that the adoption of this update will have a material impact of its financial statements.

Note 3 - Investments:

At December 31, 2009 and 2008 investments consist of the following (in thousands):

	2009	2008
Money market funds	\$ 23,763	\$ 37,738
Equities		9,689
Mutual funds - fixed income	3,451	3,371
Government bonds	3,195	1,096
Commercial paper	6,792	4,189
US Agency bonds	20,250	14,007
Municipal bonds	4,900	2,483
Mortgage and asset-backed securities	2,078	4,133
Corporate debentures/bonds	18,656	1,956
Certificates of deposit	5,106	
Hedge funds	3,105	
	<hr/>	<hr/>
	\$ 91,296	\$ 78,662

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 - Fair Value Measurements:

The table below presents assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2009 and 2008 (in thousands):

December 31, 2009	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 23,763	\$ 23,338	\$ 425	
Mutual funds - fixed income	3,451	3,451		
Government bonds	3,195		3,195	
Commercial paper	6,792		6,792	
U.S. Agency funds	20,250	16,999	3,251	
Municipal bonds	4,900		4,900	
Mortgage and asset-backed securities	2,078		2,078	
Corporate debentures/bonds	18,656		18,656	
Certificates of deposit	5,106		5,106	
Hedge funds	3,105		2,067	\$ 1,038
	<u>\$ 91,296</u>	<u>\$ 43,788</u>	<u>\$ 46,470</u>	<u>\$ 1,038</u>

December 31, 2008	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 37,738	\$ 37,738		
Equities	9,689	9,689		
Mutual funds - fixed income	3,371		\$ 3,371	
Government bonds	1,096		1,096	
Commercial paper	4,189		4,189	
U.S. Agency funds	14,007		14,007	
Municipal bonds	2,483		2,483	
Mortgage and asset-backed securities	4,133		4,133	
Corporate debentures	1,956		1,956	
	<u>\$ 78,662</u>	<u>\$ 47,427</u>	<u>\$ 31,235</u>	

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

The changes in investments classified as Level 3 are as follows for the year ended December 31, 2009 (in thousands):

Balance, January 1, 2009	\$	0
Purchases		1,000
Net realized and unrealized gains		38
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Balance, December 31, 2009	\$	1,038

The following table provides information for investments which do not have readily determinable fair market values as of December 31, 2009:

	# of Funds	Fair Value (000's)	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	\$ 1,050	0	monthly	60
Global macro fund (b)	1	1,038	0	quarterly	90
Managed futures funds (c)	2	1,017	0	monthly	10
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Total		\$ 3,105			

- (a) This fund invests in an affiliated Master Fund LP, an exempted limited partnership whose investment strategy includes global common stock, preferred stock, and convertible debt, futures, forward settlement contracts, short option contracts, swap agreements and various other derivatives.
- (b) This fund invests in an affiliated Master Fund, an exempted limited liability company whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk. Redemptions are permitted after May 1, 2010.
- (c) These funds seeks medium term capital growth directly and indirectly, of physical commodities, futures contracts, spot and forward contracts, options on the foregoing, exchanges of futures for physical transactions and other investments on domestic and international exchanges and markets (including the interbank and over the counter (OTC) markets).

Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value include cash and cash equivalents, receivables, accounts payable and accrued expenses. The carrying amounts of these items approximates fair value due to the short term nature of the financial instruments.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 - Furniture and Equipment:

Furniture and equipment as of December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008	Useful Life (Years)
Computer equipment	\$ 5,412	\$ 3,896	3
Furniture and office equipment	1,841	444	5 - 7
Leasehold improvements	1,470	59	4
Software	525	368	3
	9,248	4,767	
Less accumulated depreciation	(4,336)	(2,713)	
Net furniture and equipment	\$ 4,912	\$ 2,054	

Depreciation and amortization expense totaled \$1,736,000 and \$1,047,000 for the years ended December 31, 2009 and 2008, respectively.

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are restricted for the following purposes at December 31, 2009 and 2008 (in thousands):

	2009	2008
Jetpack Learning Project	\$ 150	\$ 0
Accessibility project	11	45
Other	12	10
	\$ 173	\$ 55

Net assets were released from donor restrictions during the year ended June 30, 2009 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows (in thousands):

Accessibility project	\$ 45
Other	10
	\$ 55

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 - Income Taxes:

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

	2009			
	Federal	State	Foreign	Total
Current provision	\$ 13,659	\$ 2,839	\$ 566	\$ 17,074
Deferred (benefit) provision	(35)	10	42	17
Total	\$ 13,624	\$ 2,859	\$ 608	\$ 17,091

	2008			
	Federal	State	Foreign	Total
Current provision	\$ 13,849	\$ 3,396	\$ 191	\$ 17,437
Deferred (benefit) provision	(30)	(39)	(290)	(360)
Total	\$ 13,819	\$ 3,357	\$ (99)	\$ 17,077

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

	2009	2008
Total assets	\$ 1,952	\$ 1,846
Total liabilities	(273)	(88)
	\$ 1,679	\$ 1,758

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

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

The activity related to Mozilla's unrecognized tax benefits is set forth below (in thousands):

	2009	2008
Balance at January 1	\$ 17,173	\$ 14,832
Increases related to current year tax positions		711
Increases related to prior year tax positions	632	1,630
Reductions related to prior year tax positions	(376)	
Settlements	(734)	
Balance at December 31	\$ 16,695	\$ 17,173

Mozilla also accrued potential penalties and interest of \$659,000 and \$731,000 related to these unrecognized tax benefits during 2009 and 2008, respectively, and in total, as of December 31, 2009, Mozilla has recorded a liability for potential penalties and interest of \$3,037,000. 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 unrecognized tax benefits line in the statement of financial position.

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 2009 tax years generally remain subject to examination by their respective tax authorities.

The Internal Revenue Service (IRS) completed its examination of the Corporation's income tax returns for 2005 through 2007. In early 2010, as the result of a formal appeals process, the IRS and Corporation settled the case, and the Corporation recognized \$734,000 of income tax benefits.

The IRS is currently examining the Foundation's 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 change to its unrecognized tax benefit balance in 2010.

Note 8 - 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 \$1,538,000 and \$939,000 for 2009 and 2008.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 9 - Concentrations of Risk:

The Corporation has a contract with a search engine provider for royalties which expires November 2011. Approximately 86% and 91% of royalty revenue for 2009 and 2008, respectively, was derived from this contract. The receivable from this search engine provider represented 71% and 80% of the December 31, 2009 and 2008 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and investments. At December 31, 2009, 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.

At December 31, 2009 and 2008, the consolidated financial statements include the following amounts of assets, liabilities and foreign currency transaction gains and losses relating to subsidiaries and branches outside the United States of America (in thousands):

	2009	2008
Assets:		
Europe	\$ 8,392	\$ 532
Asia	1,205	
North America	1,684	
New Zealand	281	
	<hr/>	<hr/>
	\$ 11,562	\$ 532
	<hr/>	<hr/>
Liabilities:		
Europe	\$ 750	\$ 506
Asia	46	
North America	692	
New Zealand	136	
	<hr/>	<hr/>
	\$ 1,624	\$ 506
	<hr/>	<hr/>
Foreign currency transaction gain (loss), net	\$ 1,814	\$ (860)

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

Note 10 - 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 2009 and 2008 totaled \$2,358,000 and \$658,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses (in thousands):

Year Ended,		
2010	\$	2,937
2011		2,931
2012		2,981
2013		2,962
2014		505
		<hr/>
	\$	12,316

Note 11 - Related Party Transactions:

There are various agreements and related transactions between the consolidated entities. The more significant of these include a \$10 million loan facility to Mozilla Messaging from the Mozilla Corporation approved in April 2010. The agreement calls for an initial loan draw of \$500,000 with \$250,000 increments thereafter. In addition, Messaging currently derives all of its revenue from the Corporation through a contractual services agreement relationship.

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

Note 12 - Contingencies:

The IRS began an examination of Mozilla Foundation's 2004 and 2005 tax years in November 2007 and in early 2009 expanded their investigation to include tax years 2006 and 2007.

As of June 30, 2010, there are two remaining issues the IRS continues to challenge. These include the tax classification of the Foundation's 2004 and 2005 search related revenue and any potential impact on the Foundation's public support test calculation as a result of this classification.

Mozilla Foundation and Subsidiaries

Notes to Consolidated Financial Statements

The Foundation has an advance ruling as a publicly supported organization. The ruling period ended December 31, 2007. The Foundation 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. The Foundation continues to stand behind its public filings and public support test calculations. 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.

On April 13, 2010, the IRS responded to the Foundation's December 2008 response to the inquiries from the IRS. On June 30, 2010, the Foundation submitted its response to the IRS on the two remaining issues. The Foundation does not expect that it will have any definitive resolutions with the IRS until after December 31, 2010.

The IRS has completed its examination of the Mozilla Corporation subsidiary for the federal tax return years 2005 through 2007 as described in Note 7.