

MOZILLA FOUNDATION  
AND SUBSIDIARY

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# **Mozilla Foundation and Subsidiary**

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

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## **Independent Auditors' Report**

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARY (Mozilla)** which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and change in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Mozilla's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mozilla's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mozilla Foundation and Subsidiary as of December 31, 2017 and 2016 and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Jose, California  
September 26, 2018

# Mozilla Foundation and Subsidiary

## Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 49,743	\$ 69,064
Receivables	56,628	52,863
Prepaid expenses and other assets	9,041	16,669
Investments	414,171	329,774
Prepaid income taxes	25,819	12,004
Deferred taxes	6,501	1,570
Furniture and equipment, net	16,682	13,937
Goodwill and intangible assets, net	28,684	
Total assets	\$ 607,269	\$ 495,881
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 30,457	\$ 28,360
Accrued liabilities	55,219	34,297
Deferred revenue	430	504
Unrecognized tax positions	6,991	6,584
Total liabilities	93,097	69,745
<b>Net Assets:</b>		
Unrestricted	510,243	420,339
Temporarily restricted	3,929	5,797
Total net assets	514,172	426,136
Total liabilities and net assets	\$ 607,269	\$ 495,881

See accompanying notes to financial statements.

# Mozilla Foundation and Subsidiary

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

<i>Years Ended December 31,</i>	2017	2016
<b>Unrestricted Net Assets:</b>		
Revenues and other support:		
Royalties	\$ 539,168	\$ 503,677
Subscription and advertising revenue	2,653	
Interest and dividend income	4,919	3,018
Net realized and unrealized gain (loss) on investments	819	1,076
Contributions	6,438	5,440
Other	553	191
Foreign currency exchange gain (loss)	2,409	(1,241)
Loss on sale of assets	(43)	(124)
Net assets released from restrictions	5,363	8,336
<b>Total unrestricted revenue and support</b>	<b>562,279</b>	<b>520,373</b>
Expenses:		
Program:		
Program services	20,713	17,015
Software development	252,672	225,942
Depreciation	6,877	6,947
Support:		
Branding and marketing	65,928	47,311
General and administrative	72,319	59,911
Depreciation	2,154	2,248
Fundraising:		
Fundraising and development	1,120	1,224
Depreciation	4	2
<b>Total expenses</b>	<b>421,787</b>	<b>360,600</b>
<b>Change in Unrestricted Net Assets before Provision for Income Taxes</b>	<b>140,492</b>	<b>159,773</b>
Provision for income taxes	50,588	55,927
<b>Change in Unrestricted Net Assets</b>	<b>89,904</b>	<b>103,846</b>
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	3,495	7,015
Net assets released from restriction	(5,363)	(8,336)
<b>Change in Temporarily Restricted Net Assets</b>	<b>(1,868)</b>	<b>(1,321)</b>
<b>Change in Net Assets</b>	<b>88,036</b>	<b>102,525</b>
<b>Net Assets - beginning of year</b>	<b>426,136</b>	<b>323,611</b>
<b>Net Assets - end of year</b>	<b>\$ 514,172</b>	<b>\$ 426,136</b>

See accompanying notes to financial statements.

# Mozilla Foundation and Subsidiary

## Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 88,036	\$ 102,525
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	9,035	9,197
Net realized and unrealized (gain) loss on investments	(819)	(1,076)
Foreign currency exchange loss	(2,409)	1,241
Unrecognized tax positions	407	(856)
Deferred income taxes	(4,722)	88
Loss on sale of assets	43	124
Changes in assets and liabilities:		
Receivables	(3,424)	(11,047)
Prepaid expenses and other assets	8,082	(5,385)
Prepaid income taxes	(13,609)	(8,874)
Accounts payable and accrued expenses	20,802	21,928
Net cash provided by operating activities	101,422	107,865
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(9,674)	(6,082)
Purchases of investments	(315,245)	(219,822)
Proceeds from sale of investments	231,083	118,025
Acquisitions, net of cash acquired	(29,262)	
Net cash used by investing activities	(123,098)	(107,879)
<b>Effect of Exchange Rate Changes on Cash</b>	2,355	(1,131)
<b>Net Change in Cash and Cash Equivalents</b>	(19,321)	(1,145)
<b>Cash and Cash Equivalents - beginning of year</b>	69,064	70,209
<b>Cash and Cash Equivalents - end of year</b>	\$ 49,743	\$ 69,064
<b>Supplemental Disclosure:</b>		
Cash paid for income taxes	\$ 83,115	\$ 64,433

See accompanying notes to financial statements.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 1 - Nature of the Organization:

Established in July 2003, the Mozilla Foundation (the Foundation) is a California not-for-profit corporation that exists to improve and protect the Internet as a public resource by working with thousands of volunteers to 1) keep the Internet a universal open platform and 2) promote continued innovation on the Internet. The Foundation supports the development of open source, standards compliant, free Internet applications useable free of charge to hundreds of millions of users. It also a) develops foundational technologies that can be used to build the values of openness and interoperability into the internet; and b) fuels the movement for an open internet through educational work that connects open internet leaders with each other and mobilizes grassroots activities around the world.

The Foundation has a wholly-owned for-profit subsidiary, Mozilla Corporation (the Corporation). The Corporation serves the non-profit, public benefit goals of its parent and the vast Mozilla community. It provides internet based open source software and services (Mozilla Products) which are made available to hundreds of millions of users worldwide to fulfill Mozilla's worldwide mission to make the internet and the web open and accessible to all. The Corporation has wholly-owned subsidiaries operating in the United States, Canada, Europe, China and several other international branches to further its worldwide mission.

### 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 in accordance with accounting principles generally accepted in the United States of America.

#### b. Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly-owned subsidiary, the Corporation (collectively "Mozilla"). All significant intercompany accounts and transactions have been eliminated.

#### c. Basis of Presentation

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



# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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*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 Mozilla in accordance with temporary 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. 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. Mozilla does not have any permanently restricted net assets as of December 31, 2017 and 2016.

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 grantors. Receivables are carried at original invoice amount or accrued based on contractual agreements with each search provider or grantor. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2017 and 2016, management considers all amounts to be fully collectible. Therefore, no allowance has been established.

Mozilla has \$1,755,000 and \$469,000 in grants receivable at December 31, 2017 and 2016, respectively.

f. Investments

Investments, which consist of money market funds, marketable debt securities, mutual funds, various government issued securities, commercial paper and hedge funds are stated at fair value. The fair value of money market funds is based on quoted market prices for identical assets in active markets. The fair value of marketable debt, government issued securities and commercial paper 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 statement of activities and change in net assets.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### g. Fair Value Measurements

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, the Foundation reports certain investments using the NAV per share method practical expedient which allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Mozilla classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1: 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.

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.

### h. 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.

### i. Goodwill and Intangible Assets

Goodwill represents the excess of the cost of net assets acquired over the fair market 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 Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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Mozilla assesses qualitative factors to determine whether it is necessary to perform an annual two-step goodwill impairment test. If Mozilla determines that a goodwill impairment test is required, Mozilla then tests goodwill for impairment, relying on a number of factors, including operations results, business plans and future cash flows. Recoverability of goodwill is evaluated and involves a comparison of the fair value and carrying value of the goodwill. If the carrying value of the goodwill exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

j. 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.

k. 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 and information providers based upon end user activity or as contractually agreed to. Mozilla records revenue on the accrual basis of accounting based upon the amounts received.

Mozilla recognizes revenue from advertising for content providers and monthly and annual subscriptions when the services are performed. Deferred revenue is recorded for the amount billed for which the service period has not yet occurred.

l. 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 or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Mozilla received \$9,933,000 and \$12,455,000 in contributions during the years ending December 31, 2017 and 2016, respectively, and has \$100,000 and \$980,000 in conditional promises at December 31, 2017 and 2016, respectively.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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m. Software Development Costs

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

n. Advertising Costs

Mozilla expenses advertising costs as incurred. Amounts paid in advance of services provided are recorded as a prepaid expense. Advertising and promotional expense for the year ended December 31, 2017 and 2016 amounted to \$30,670,000 and \$14,696,000, respectively.

o. Grants

Grants are recorded when approved and all significant conditions are met.

p. Income Taxes

The Foundation qualifies as a public benefit charitable organization exempt from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the California Revenue and Taxation Code. The Foundation provides for tax, if any, on unrelated business income.

The Corporation is a C corporation. 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. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized.

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

q. 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 Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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r. Foreign Currency Translation

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

s. Use of Estimates

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

t. Functional Expenses

Expenses are allocated to functional areas based on management's estimates. Fundraising expenses were \$1,124,000 for 2017 and \$1,226,000 for 2016. Program expenses include costs related to furthering the Mozilla open-source project. Grants totaling approximately \$5,440,000 and \$2,560,000 are included in program expenses for 2017 and 2016, respectively.

u. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

v. Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued authoritative guidance, *Revenue from Contracts with Customers (Topic 606)*. These amendments provide that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years beginning after December 15, 2018. The impact of adopting this guidance on subsequent periods has not yet been determined.

The FASB issued Accounting Standards Update (ASU) No. 2016-02—*Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their balance sheet for all leases with lease terms of more than twelve months. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. Mozilla has started to implement this ASU as of December 31, 2017.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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In August 2016, the FASB issued ASU No. 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. These amendments make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments are effective for fiscal years beginning after December 15, 2017. Early application of the update is permitted and applied retrospectively. Mozilla is currently evaluating the impact of this guidance on its financial statements.

ASU 2017-04 Intangibles - *Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Effective in fiscal years beginning after December 15, 2021 with early adoption permitted. These amendments eliminate Step 2 from the goodwill impairment test. The goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Mozilla is currently assessing the impact the adoption of this ASU will have on its financial statements.

ASU 2016-18 - *Statement of Cash Flows (Topic 230): Restricted Cash*. effective for fiscal years beginning after December 15, 2018, with early adoption permitted. These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. Mozilla is currently assessing the impact the adoption of this ASU will have on its financial statements.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### w. Subsequent Events

Mozilla evaluated subsequent events from December 31, 2017 through September 26, 2018, the date these financial statements were available to be issued. Except as follows and in Note 9, there were no material subsequent events that required additional disclosure in these financial statements.

On January 18, 2018, the Corporation's Board of Directors decided and announced a reduction in the Taiwan branch workforce. As a result, approximately \$3 million was paid in severance after year end. No amount has been recorded in these financial statements as of December 31, 2017.

### **Note 3 - Acquisition:**

On February 24, 2017, the Corporation acquired 100% of the outstanding stock of Read It Later, Inc., known as Pocket, (RIL) for a total purchase price of \$25 million in cash, and \$5 million in deferred payments. The results of RIL are included in Mozilla's consolidated financial statements since the date of acquisition.

RIL is headquartered in California and provides a platform that helps people save interesting articles, videos and more from the web for later enjoyment. Once saved, the list of content is visible on any device — phone, tablet or computer — via its mobile and web applications. RIL's save-for-later service has been integrated into the Firefox web browser to provide Firefox users a better user experience. The goodwill arising from the acquisition will create growth opportunities and expected synergies and enhancements with Firefox integration. None of the goodwill recognized is expected to be deductible for income tax purposes.

Assets acquired, and liabilities assumed at the date of acquisition consisted of:

Cash	\$	187,000
Accounts receivable		315,000
Restricted cash		374,000
Other assets		9,000
Intangible assets		3,700,000
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Total assets acquired	\$	4,585,000

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

Accounts payable and accrued expenses	\$	130,000
Deferred revenue		608,000
Other accrued expenses		40,000
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Total liabilities assumed	\$	778,000
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Net assets acquired	\$	3,807,000
Goodwill		26,017,000
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Purchase price	\$	29,824,000
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The allocation of purchase price is preliminary and subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to income taxes and residual goodwill.

### Note 4 - Investments and Fair Value Measurements:

The tables below present investments measured at fair value on a recurring basis by level within the valuation hierarchy at December 31:

2017	Total	Level 1	Level 2	Level 3
Money market funds	\$ 9,341,000	\$ 9,341,000		
Commercial paper	13,291,000		\$ 13,291,000	
Mutual funds				
Domestic	14,095,000	9,506,000	4,589,000	
ETF: Minerals	442,000	442,000		
Municipal bonds	1,786,000		1,786,000	
U.S. Agency funds	107,079,000		107,079,000	
Asset-backed securities	49,333,000		49,333,000	
Corporate debentures/bonds:				
Industrial	182,827,000		182,827,000	
Financial	31,922,000		31,922,000	
<hr/>				
Total assets measure at fair value	410,116,000	\$ 19,289,000	\$ 390,827,000	
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Hedge fund investments measured at net asset value as a practical expedient	4,055,000			
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Total	\$414,171,000			
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# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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2016	Total	Level 1	Level 2	Level 3
Money market funds	\$ 25,536,000	\$ 25,536,000		
Commercial paper	4,694,000		\$ 4,694,000	
Mutual funds				
Domestic	11,857,000	7,393,000	4,464,000	
ETF: Minerals	392,000	392,000		
Municipal bonds	4,070,000		4,070,000	
U.S. Agency funds	132,906,000		132,906,000	
Asset-backed securities	25,280,000		25,280,000	
Corporate debentures/bonds:				
Industrial	56,234,000		56,234,000	
Financial	63,768,000		63,768,000	
Utility	962,000		962,000	
Total assets measure at fair value	325,699,000	\$ 33,321,000	\$ 292,378,000	
Hedge fund investments measured at net asset value as a practical expedient	4,075,000			
Total	\$329,774,000			

An investment's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There has been no change in the methodology used for December 31, 2017 and 2016.

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 Subsidiary

### Notes to Consolidated Financial Statements

The following table provides information for investments using NAV to determine fair value as of December 31:

<b>2017</b>	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Global macro fund (a)	1	1,139,000	Quarterly	90
Event driven fund (b)	1	1,738,000	Monthly	30
Long and short fund (c)	1	838,000	Monthly	60
Feeder fund (d)	1	340,000	None	N/A
<b>Total</b>		<b>\$ 4,055,000</b>		

<b>2016</b>	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Global macro fund (a)	1	1,203,000	Quarterly	90
Event driven fund (b)	2	1,866,000	Monthly/ Quarterly	30/45
Long and short fund (c)	1	755,000	Monthly	60
Feeder fund (d)	1	251,000	None	N/A
<b>Total</b>		<b>\$ 4,075,000</b>		

There were \$300,000 and \$372,000 in unfunded commitments as of December 31, 2017 and December 31, 2016, respectively.

- (a) This fund invests in an affiliated Master Fund LP, whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.
- (b) This fund invests in an affiliated Master Fund LP, whose investment strategy is to achieve positive returns from capital appreciation and income generation.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

- (c) This fund invests in affiliated Master Fund LP, whose objectives are to maximize risk adjusted, absolute returns over the course of various market cycles through a portfolio consisting of long and short equity investments and whose investment strategy combines elements of long and short equities and corporate credit relative value trading.
- (d) This fund invests in an affiliated Master Fund LP, whose objective is to invest on a leveraged basis, in whole or in part, in collateralized and unsecured commercial loans and debt securities of corporations, partnerships, companies or other securities.

### Note 5 - Property and Equipment:

Property and equipment as of December 31, are as follows:

	2017	2016	Useful Life (Years)
Computer equipment	\$ 20,059,000	\$ 15,813,000	3
Furniture and office equipment	11,944,000	11,959,000	3 - 7
Leasehold improvements	28,181,000	22,913,000	3 - 5
Software	223,000	217,000	1 - 3
	60,407,000	50,902,000	
Less accumulated depreciation	(43,725,000)	(36,965,000)	
<b>Net property and equipment</b>	<b>\$ 16,682,000</b>	<b>\$ 13,937,000</b>	

Depreciation and amortization expense totaled \$8,002,000 and \$9,197,000 for the years ended December 31, 2017 and 2016, respectively.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

### Note 6 - Goodwill and 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. Amortization expense for the period from acquisition through December 31, 2017 was \$1,033,000.

The components of goodwill and intangible assets are as follows as of December 31, 2017:

	2017	Estimated Useful Life (Years)
Goodwill	\$ 26,017,000	
User base	1,500,000	2
Trade names and trademark	1,200,000	5
Developed Technology	1,000,000	4
	3,700,000	
Accumulated amortization	(1,033,000)	
Total intangible assets	\$ 2,667,000	

### Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are restricted for the following purposes at December 31:

	2017	2016
Leadership Development: Ford-Mozilla Open Web Program	\$ 1,012,000	\$ 2,411,000
Leadership Development: Mozilla Science Lab	1,213,000	1,413,000
Agenda-setting: Digital Skills Observatory		137,000
Leadership Development: Hive	174,000	826,000
Leadership Development: Knight-Mozilla OpenNews		106,000
Community: Coral Software Project	203,000	52,000
Thunderbird	1,077,000	434,000
Other	250,000	418,000
	\$ 3,929,000	\$ 5,797,000

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

Net assets were released from donor restrictions during the year ended December 31, 2017 and 2016 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2017	2016
Leadership Development: Hive	\$ 1,165,000	\$ 1,261,000
Leadership Development: Knight-Mozilla OpenNews	106,000	1,378,000
Leadership Development: Mozilla Science Lab	950,000	1,209,000
Leadership Development: Ford-Mozilla Open Web Program	1,399,000	1,259,000
Community: Coral Software Project	1,227,000	2,023,000
Agenda-setting: Digital Skills Observatory	137,000	514,000
Thunderbird	183,000	
Other	196,000	692,000
	<u>\$ 5,363,000</u>	<u>\$ 8,336,000</u>

### Note 8 - Income Taxes:

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

	2017			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	\$ (60,000)			\$ (60,000)
Corporation	49,809,000	\$ 1,080,000	\$ 3,408,000	54,297,000
Deferred provision (benefit)				
Corporation	(3,329,000)	(126,000)	(194,000)	(3,649,000)
<b>Total</b>	<u>\$ 46,420,000</u>	<u>\$ 954,000</u>	<u>\$ 3,214,000</u>	<u>\$50,588,000</u>

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

	2016			
	Federal	State	Foreign	Total
Current provision				
Foundation	\$ 9,000	\$ 4,000		\$ 13,000
Corporation	51,868,000	1,321,000	\$2,570,000	55,759,000
Deferred provision (benefit)				
Corporation	564,000	38,000	(447,000)	155,000
<b>Total</b>	<b>\$52,441,000</b>	<b>\$ 1,363,000</b>	<b>\$2,123,000</b>	<b>\$55,927,000</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, accrued expenses and other reserves, and state income taxes net of federal tax benefit.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law, enacting a broad range of changes to the U.S. Internal Revenue Code. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; and (5) creating the base erosion anti-abuse tax ("BEAT"), a new minimum tax. The Tax Act also imposes significant limitations on the deductibility of interest, executive compensation and future net operating losses. The Tax Act allows for the expensing of certain capital expenditures.

As part of the transition to the new territorial tax system, the Act imposes a one-time tax on deemed repatriation of historical earnings of foreign subsidiaries. Based on the current evaluation of the Corporation's operations, a repatriation tax charge of \$1,782,000 is anticipated. Mozilla will continue to assess its provision for income taxes as future guidance is issued, but does not currently anticipate significant revisions will be necessary. Deferred taxes are reflected in the statement of financial position as follows:

	2017	2016
Total assets	\$ 7,518,000	\$ 5,567,000
Total liabilities	(1,017,000)	(3,997,000)
	<b>\$ 6,501,000</b>	<b>\$ 1,570,000</b>

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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 positions is set forth below:

	Foundation	Corporation	Total
Balance at December 31, 2015		7,440,000	7,440,000
Increases related to current tax positions		889,000	889,000
Decreases related to prior year tax positions		(828,000)	(828,000)
Lapse of time restrictions		(917,000)	(917,000)
Balance at December 31, 2016		\$ 6,584,000	\$ 6,584,000
Increases related to current tax positions		1,484,000	1,484,000
Increases related to prior year tax positions		545,000	545,000
Lapse of time restrictions		(1,622,000)	(1,622,000)
Balance at December 31, 2017		\$ 6,991,000	\$ 6,991,000

Mozilla also accrued potential penalties and interest of \$73,000 and \$10,000 related to these unrecognized tax benefits during 2017 and 2016, respectively, and in total, as of December 31, 2017 and 2016, Mozilla has recorded a liability for potential penalties and interest of \$260,000 and \$280,000, respectively. Mozilla recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying statement of activities and change in net assets. Accrued interest and penalties are included within the unrecognized tax positions line in the statement of financial position. Mozilla does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Mozilla files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Mozilla is generally no longer subject to income tax examination by the U.S. Federal and state taxing authorities for the tax years ending before 2014 and 2013, respectively. In foreign jurisdictions, the 2010 through 2017 tax years generally remain subject to examination by their respective taxing authorities.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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### **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 \$7,213,000 and \$6,679,000 for 2017 and 2016, respectively.

For certain other foreign locations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled \$2,386,000 and \$2,067,000 for 2017 and 2016, respectively.

The Corporation maintains a Long-Term Incentive Plan whereby a Board committee annually approves the participants and amount. Expenses of approximately \$14,288,000 and \$9,157,000 were recorded in 2017 and 2016, respectively.

### **Note 10 - Concentrations of Risk:**

Mozilla has entered into contracts with search engine providers for royalties which expire through November 2020.

Approximately 93% and 94% of Mozilla's royalty revenues were derived from these contracts for 2017 and 2016, respectively, with receivables from these contracts representing approximately 75% and 79% of the December 31, 2017 and 2016 outstanding receivables.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and cash equivalents and investments. At December 31, 2017 and 2016, essentially all of the cash and cash equivalents 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, and actively manages the investments to these policies.



# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

At December 31, 2017 and 2016, 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:

	2017	2016
Assets:		
Europe	\$ 15,029,000	\$ 11,727,000
Asia	17,660,000	17,472,000
North America	1,644,000	7,552,000
Australia and Oceanic	168,000	801,000
	<hr/>	<hr/>
	\$ 34,501,000	\$ 37,552,000
Liabilities:		
Europe	\$ 5,821,000	\$ 3,458,000
Asia	1,807,000	1,771,000
North America	8,588,000	7,122,000
Australia and Oceanic	638,000	531,000
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	16,854,000	\$ 12,882,000
Foreign currency transaction gain (loss), net	\$ 2,409,000	\$ (1,241,000)

### Note 11 - Commitments:

Included in cash at December 31, 2017 is approximately \$1,000,000 of collateral pledged for lease agreements.

Included in cash at December 31, 2016 is approximately \$4.4 million of collateral pledged for a letter of credit in favor of a vendor. The collateral was released in June 2017.

Mozilla leases office spaces under leases, which expire through August 2023. Some leases have options to renew and certain leases are guaranteed by letters of credit. Rent expense for 2017 and 2016 totaled \$9,758,000 and \$9,494,000, respectively. Future minimum lease commitments are as follows and include all base rent and operating expenses.

# Mozilla Foundation and Subsidiary

## Notes to Consolidated Financial Statements

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Year Ended	
2018	\$ 8,848,000
2019	9,799,000
2020	10,617,000
2021	7,613,000
2022	4,844,000
Thereafter	2,972,000
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Total scheduled payments	\$ 44,693,000

The Corporation is currently involved in litigation matters arising in the normal course of its operations. The Corporation will vigorously defend itself in the actions and management believes there will be no adverse material financial impact resulting from such matters. No accrual has been made in these financial statements.

### **Note 12 - Related Party Transactions:**

The Corporation pays the Foundation two percent (2%) of its annual net revenues related to the use of the trademarks less approved expenses of the preceding year in license fees per a license agreement. The Corporation paid \$10,074,000 and \$8,348,000 to the Foundation in 2017 and 2016, respectively.

The Corporation provides basic administrative services, IT support and legal services under a service agreement between the Corporation and the Foundation.

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