

Mozilla Foundation and Subsidiaries

December 31, 2023 and 2022

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

AUDIT COMMITTEE
MOZILLA FOUNDATION AND SUBSIDIARIES
San Francisco, California

Opinion

We have audited the consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)**, which comprise the consolidated statement of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mozilla as of December 31, 2023 and 2022, and the changes 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mozilla's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mozilla's ability to continue as a going concern for a reasonable period of time.

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

Hood & Strong LLP

San Jose, California
December 9, 2024

Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position (In thousands)

<i>December 31,</i>	2023	2022
Assets		
Cash and cash equivalents	\$ 263,323	\$ 513,780
Receivables, net of allowance for credit losses \$69 and \$152, respectively	55,317	60,231
Prepaid expenses and other assets	17,317	25,969
Investments	1,006,854	631,124
Prepaid income taxes	17,783	4,196
Deferred taxes	78,328	69,207
Property and equipment, net	1,481	2,239
Goodwill, net	28,649	13,008
Intangible assets, net	6,456	1,785
Total assets	\$ 1,475,508	\$ 1,321,539
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 22,550	\$ 16,441
Accrued liabilities	4,112	7,128
Accrued compensation and benefits	94,697	83,203
Deferred revenue	3,893	4,825
Other liabilities	14,270	12,095
Total liabilities	139,522	123,692
Net Assets:		
Without donor restrictions	1,331,123	1,189,196
With donor restrictions	4,863	8,651
Total net assets	1,335,986	1,197,847
Total liabilities and net assets	\$ 1,475,508	\$ 1,321,539

See accompanying notes to the consolidated financial statements.

Mozilla Foundation and Subsidiaries

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

<i>Years Ended December 31,</i>	2023	2022
Net Assets Without Donor Restrictions:		
Revenues and other support:		
Royalties	\$ 494,874	\$ 510,389
Subscription and advertising revenue	64,775	75,716
Other revenue	295	352
Interest and dividend income	47,322	9,408
Net realized and unrealized gain (loss) on investments	24,127	(19,078)
Contributions	12,888	9,391
Other income, net	3,261	5,468
Foreign currency exchange loss, net	(1,913)	(3,504)
Net assets released from restrictions	7,383	5,374
Total revenue and support	653,012	593,516
Expenses:		
Program:		
Software development	260,678	220,966
Other program services	40,085	34,863
Management and general:		
Branding and marketing	68,339	58,252
General and administrative	123,923	108,953
Fundraising:		
Fundraising and development	3,698	2,186
Total expenses	496,723	425,220
Change in Net Assets Without Donor Restrictions before Provision for Income Taxes	156,289	168,296
Provision for income tax expense	14,362	24,903
Change in Net Assets Without Donor Restrictions	141,927	143,393
Change in Net Assets With Donor Restrictions:		
Contributions	3,595	6,128
Net assets released from restriction	(7,383)	(5,374)
Change in Net Assets With Donor Restrictions	(3,788)	754
Change in Net Assets	138,139	144,147
Net Assets - beginning of year	1,197,847	1,054,204
Distributions	-	(504)
Net Assets - end of year	\$ 1,335,986	\$ 1,197,847

See accompanying notes to the consolidated financial statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Functional Expenses (In thousands)

Years Ended December 31, 2023 and 2022

	2023				2022			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 202,386	\$ 123,357	\$ 2,378	\$ 328,121	\$ 171,307	\$ 110,767	\$ 1,665	\$ 283,739
Information technology	34,198	3,667	84	37,949	24,231	3,272	90	27,593
Consultants	28,271	13,837	426	42,534	26,079	12,537	51	38,667
Advertising and promotion	1,170	30,161	596	31,927	317	22,189	98	22,604
Staff development	441	190	26	657	3,113	1,934	1	5,048
Occupancy	2,673	1,355	8	4,036	4,235	2,449	7	6,691
Grants and fellowships	6,388	-	-	6,388	4,491	938	-	5,429
Events	1,160	582	-	1,742	1,053	487	-	1,540
Travel	7,254	3,641	159	11,054	2,017	1,377	27	3,421
Professional services	14	7,424	-	7,438	105	4506	15	4,626
Depreciation and amortization	4,683	2,376	-	7,059	2,845	1,671	-	4,516
Other expenses	12,125	5,672	21	17,818	16,036	5,078	232	21,346
Expenses before income tax provision	300,763	192,262	3,698	496,723	255,829	167,205	2,186	425,220
Provision for income tax expense	9,294	4,946	122	14,362	15,920	8,793	190	24,903
Total expenses	\$ 310,057	\$ 197,208	\$ 3,820	\$ 511,085	\$ 271,749	\$ 175,998	\$ 2,376	\$ 450,123

See accompanying notes to the consolidated financial statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows (In thousands)

<i>Years Ended December 31,</i>	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ 138,139	\$ 144,147
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	7,058	4,516
Net realized and unrealized (gain) loss on investments	(59,365)	30,045
Foreign currency exchange loss, net	43	8
Unrecognized tax positions	2,072	(790)
Deferred income taxes	(9,121)	(49,713)
Loss on disposal of assets	194	11
Changes in assets and liabilities:		
Receivables	5,139	2,601
Prepaid expenses and other assets	9,632	5,930
Prepaid income taxes	(13,587)	(3,805)
Accounts payable and accrued expenses	(11,416)	3,876
Accrued compensation and benefits	11,283	14,998
Deferred revenue	(932)	1,862
Other liabilities	(30)	(6,512)
Net cash provided by operating activities	79,109	147,174
Cash Flows from Investing Activities:		
Purchases of property and equipment	(542)	(34)
Purchases of investments	(1,124,004)	(201,168)
Proceeds from maturities and sales of investments	807,639	190,576
Acquisition of a business, net of cash and cash equivalents acquired	(23,052)	-
Purchase of intangible assets	-	(732)
Net cash used by investing activities	(339,959)	(11,358)
Cash Flows from Financing Activities:		
Distributions	-	(504)
Net cash used by financing activities	-	(504)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10,393	202
Net Change in Cash and Cash Equivalents	(250,457)	135,514
Cash and Cash Equivalents - beginning of year	513,780	378,266
Cash and Cash Equivalents - end of year	\$ 263,323	\$ 513,780
Supplemental Disclosure:		
Cash paid for taxes, net of refunds	\$ 39,960	\$ 74,555
Right-of-use assets recognized in exchange for lease liabilities	\$ 4,129	\$ 6,442

See accompanying notes to the consolidated financial statements.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Note 1 - Nature of the Organization:

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

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

Note 2 - Summary of Significant Accounting Policies:

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of Mozilla have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany accounts and transactions have been eliminated. Certain accounts in the 2022 consolidated financial statements have been reclassified for comparative purposes to conform with the 2023 presentation. These reclassifications had no effect on net assets or change in net assets.

Basis of Presentation

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Net Assets Without Donor Restrictions – Net assets that are not subject to time or donor-imposed restrictions and may be expended for any purpose in achieving the primary objectives of the Foundation.

Net Assets With Donor Restrictions – Net assets that are limited in use by Mozilla in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of Mozilla according to the terms of the contribution. Net assets with donor restrictions also include net assets to be retained in perpetuity, of which Mozilla has none as of December 31, 2023 and 2022.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, support and expenses reported during the reporting period. Mozilla bases its estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. Actual results could differ from those estimates.

Foreign Currency

Other than China, effective January 1, 2023, the functional currency of Mozilla's foreign subsidiaries is the U.S. dollar. The local currency financial statements of Mozilla's foreign subsidiaries are remeasured into U.S. dollars with monetary assets and liabilities remeasured using exchange rates at the balance sheet date and nonmonetary assets and liabilities are remeasured using the exchange rate at the date the item was initially recognized with the resulting foreign currency gain or loss on remeasurement included in foreign currency exchange gain (loss) in the consolidated statement of activities and changes in net assets. The impact of the change in foreign currency treatment was immaterial for the year ended December 31, 2022.

In addition, Mozilla incurs foreign currency transaction gains and losses which are recorded as foreign currency exchange gain (loss) in the consolidated statement of activities and changes in net assets and were not material for the years ended December 31, 2023 or 2022.

Mozilla translates the financial statements of its China subsidiaries to U.S. dollars using balance sheet date exchange rates for assets and liabilities, and average rates for the annual period derived from month-end exchange rates for revenue and expenses. Mozilla records translation gains and losses in foreign currency exchange gain (loss) in the consolidated statement of activities and changes in net assets. The Company records net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to functional currency as a component of foreign currency exchange gain (loss).

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Notes to the Consolidated Financial Statements

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents generally consist of investments in money market funds and commercial paper. The carrying value of cash and cash equivalents approximate their fair value as of December 31, 2023 and 2022.

Receivables

Receivables consist primarily of amounts due from contracts with multiple search engine and information providers, and grantors. Receivables are carried at original invoice amount or accrued based on contractual agreements or grant agreements with each search provider or grantor. An allowance for credit losses is appropriately considered depending upon current economic conditions, prior history and a reasonable forecast of collections. As of December 31, 2023 and 2022, Mozilla had an allowance of \$0.1 million and \$0.2 million, respectively.

Mozilla has \$2.9 million and \$3.7 million in grants receivable as of December 31, 2023 and 2022, respectively. Mozilla expects grants receivable as of year end to be received in 2024.

Investments

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

Marketable securities consisting of marketable debt and government issued securities, mutual funds, equities and alternatives, are recorded at fair value. The fair value of marketable debt and government issued securities is based upon models that maximize the use of observable inputs for similar assets. The fair value of mutual funds is based on their quoted prices for identical assets in active or inactive markets. The fair value of equities and alternatives are determined using either their readily available prices and / or use of observable inputs for similar assets, or estimated using the net asset value (NAV) per share or ownership interest of the investment. Changes in fair value are recognized on a current basis in the consolidated statement of activities and change in net assets. Gains and losses on investments are determined on the specific identification method.

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Non-marketable investments include direct and indirect investments into various early stage, high growth technology companies. The fair value of the non-marketable investments has been estimated using either 1) valuation techniques that are consistent with the market or income approach used to measure fair value or 2) the NAV per share or ownership interest in the investment. Changes in fair value, including any distributions, are recognized on a current basis in the consolidated statement of activities and change in net assets. If an investment has no readily available information to determine the investment's respective fair value, under the measurement alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. Adjustments are determined primarily based on a market approach as of the transaction date in the consolidated statement of activities and changes in net assets.

Non-marketable investments are included within "Investments" in the consolidated statement of financial position and were \$21.2 million and \$15.9 million as of December 31, 2023 and 2022, respectively.

Fair Value of Financial Instruments

The carrying value of financial instruments not otherwise disclosed herein, approximates fair value due to the short-term nature of these financial instruments.

Mozilla carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Mozilla classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable inputs for the asset or liability that are not corroborated by market data.

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In determining the appropriate levels, Mozilla performed an analysis of the assets and liabilities. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by Mozilla in determining fair value is greatest for investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated over the estimated useful lives of the related assets, generally one to seven years, using the straight-line method. Leasehold improvements are amortized over the useful life or the term of the lease, whichever is shorter.

Mozilla recognizes asset retirement obligations (AROs) in the period in which it has an existing legal obligation associated with the retirement of a tangible long-lived asset, and the amount of the liability can be reasonably estimated. The ARO is recognized at fair value when the liability is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Mozilla depreciates the tangible asset over its estimated useful life. The liability is adjusted in subsequent periods through accretion expense, if any, which represents the increase in the present value of the liability due to the passage of time. Such depreciation and accretion expenses are included in depreciation expense.

Mozilla's AROs are primarily the result of requirements under facility lease agreements which generally have *return to original condition* clauses which would require Mozilla to remove or restore items such as demising walls and office buildouts, among other items.

The significant assumptions used in estimating the aggregate ARO are the timing of removals, the probability of a requirement to perform, estimated cost and associated expected inflation rates that are consistent with historical rates and credit-adjusted risk-free rates that approximate Mozilla's incremental borrowing rate.

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Notes to the Consolidated Financial Statements

Business Combinations

When Mozilla acquires a business, the purchase price is allocated to the net tangible and identifiable assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make estimates in determining the fair value of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates can include but are not limited to: the cash flows that an asset is expected to generate in the future, the approximate weighted-average cost of capital and the cost savings expected to be derived from acquiring the asset. These estimates are inherently uncertain and unpredictable. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statement of activities and changes in net assets.

Leases

Mozilla determines whether an arrangement is or includes a lease and categorizes leases as either operating or finance leases at their commencement. Right-of-use (ROU) assets are included within *prepaid expenses and other assets* and lease liabilities are included within *other liabilities* on the consolidated statement of financial position. Mozilla does not have any finance leases.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As Mozilla's leases do not typically provide an implicit rate, Mozilla uses a risk-free discount rate at the commencement date in determining the present value of future payments. The lease ROU asset also includes any lease payments made minus any lease incentives received and initial direct costs incurred. Mozilla accounts for lease and non-lease components, to the extent they are fixed, as a single lease component. Additionally, the lease term may include options to extend or terminate the lease when it is reasonably certain Mozilla will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

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

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of net assets acquired over the fair value of identifiable net assets at the date of acquisition. Intangible assets consist of acquired user base, trade names and trademarks, and developed technology.

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Mozilla follows the private company alternative accounting for goodwill. Goodwill is amortized over a 10-year estimated useful life and impairment is assessed at the reporting unit level. Mozilla evaluates the facts and circumstances as of the end of the reporting period to determine whether it is more likely than not that goodwill is impaired. There were no impairments to goodwill or intangible assets for the years ended December 31, 2023 and 2022.

Long-Lived Assets

Mozilla evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Mozilla recognized no impairment losses for the years ended December 31, 2023 and 2022.

Recognition of Revenue

Mozilla accounts for revenue from contracts with customers by applying the requirements of Topic 606, which includes the following steps:

- *Identification of the contract, or contracts, with a customer* - A contract with a customer exists when (i) Mozilla enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance, and (iii) Mozilla determines that collection of substantially all consideration for services that are transferred are probable based on the customer's intent and ability to pay the promised consideration when it is due.
- *Identification of the performance obligations in the contract* - Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the services either on their own or together with other resources that are readily available from third parties or from Mozilla, and are distinct within the context of the contract, whereby the transfer of the services is separately identifiable from the other promises in the contract.
- *Determination of the transaction price* - The transaction price is determined based on the consideration to which Mozilla will be entitled in exchange for transferring services to the customer. Such amounts are typically stated in the customer contract and to the extent that Mozilla identifies variable consideration, Mozilla estimates the variable consideration at the onset of the arrangement as long as it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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- *Allocation of the transaction price to the performance obligations in the contract* - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Mozilla noted that contracts will only contain a single performance obligation and therefore no standalone selling price determination is necessary.
- *Recognition of revenue when, or as, performance obligations are satisfied* - For each performance obligation identified, Mozilla determines at contract inception whether it satisfies the performance obligation over time or at a point in time. For performance obligations that are satisfied at a point in time Mozilla recognizes revenue at the time that control is transferred, and for performance obligations satisfied over time Mozilla recognizes revenue as services are provided typically over the contract term.

Revenue consists of the following:

- *Royalties* - Mozilla provides the Firefox web browser, which is a free and open-source web browser initially developed by Mozilla Foundation and the Corporation. Mozilla incorporates search engines of its partners as a default status or an optional status available in the Firefox web browser. Mozilla generally receives royalties at a certain percentage of revenues earned by its partners through their search engines incorporated in the Firefox web browser.
- *Subscription Revenues* - Mozilla's subscription revenues primarily consist of revenue from subscriptions to a service known as Pocket Premium and VPN.
 - *Pocket Premium* - Pocket is a mobile and web application that enables users to save, manage and consume articles, videos, and other content from the internet. Pocket offers free and paid subscription (Pocket Premium) versions of its product. Customers who subscribe to Pocket Premium unlock access to additional Pocket features. Included in a Pocket Premium subscription are features like full text search on saved articles, removal of advertising from Pocket properties, the ability to create unlimited highlights and the ability to create a permanent library of everything a user has saved. Pocket Premium subscription is available on a month-to-month or annual basis.
 - *VPN* - Mozilla VPN offers a virtual private network (VPN) allowing users to create a secure private internet connection for added security and to maintain privacy online. The VPN creates a "tunnel" between the customer's device and the internet at large, concealing the IP address and obscures the customer's location. It also encrypts the internet traffic so others on the same local network cannot decipher or modify it. The VPN subscription is available on a month-to-month, semi-annual or annual basis.

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- *Advertising Revenues* - Mozilla also offers advertising services in three formats. The first is the New Tab / Tiles advertising service, which places links to sponsored content when a new tab is opened in the Firefox web browser. The second format is through Pocket's email product, Pocket Hits. Pocket Hits may include paid advertisements, which are placed in email newsletters that get delivered to global Pocket users. Lastly, Mozilla also sells web advertisement spots on content that Mozilla licenses and syndicates from publisher partners across the web.
- *Deferred Revenue* - Mozilla records contract liabilities to deferred revenue when amounts are invoiced in advance of performance. Deferred revenue consists of contract billings in excess of amounts recognized as revenue in a customer contract. Deferred revenue is separately disclosed on Mozilla's consolidated statement of financial position.

Payment terms and conditions vary by contract type. Financial information for the search engine and information providers with whom Mozilla contracts is generally publicly available and as such Mozilla assesses credit risk prior to entering into contracts with new customers and does not enter into contracts if collection is not probable. For Subscription and Advertising, contracts are typically only cancellable within a short notice period, and therefore the consideration to which Mozilla is entitled for which Mozilla must assess probability of collection is not significant. In instances where the timing of revenue recognition differs from the timing of invoicing, Mozilla has determined the contracts do not contain a significant financing component.

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 an unconditional promise is received by a third party. Contributions are recorded depending on the existence and/or nature of any donor restrictions. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions.

Conditional promises, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met. Mozilla received \$16.5 million and \$15.5 million in contributions during the years ended December 31, 2023 and 2022, respectively, and has \$1.5 million and \$1.6 million in conditional promises as of December 31, 2023 and 2022, respectively, that are not recorded in these financial statements.

Software Development Costs

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

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Notes to the Consolidated Financial Statements

Advertising Costs

Mozilla expenses advertising costs as incurred. Amounts paid in advance of services provided are recorded as a prepaid expense. Advertising expense for the years ended December 31, 2023 and 2022 amounted to \$18.5 million and \$18.0 million, respectively, and is included in advertising and promotion on the statement of functional expenses.

Income Taxes

The Foundation qualifies as a public benefit charitable organization exempt from income taxes on income related to its charitable purpose under Section 501(c)(3) of the Internal Revenue Code and applicable sections of the California Revenue and Taxation Code and is not classified as a private foundation. The Foundation provides for tax, if any, on unrelated business income.

The Corporation, MZLA, and AI are C corporations. Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Differences relate primarily to state taxes, property and equipment, prepaid and accrued expenses and net operating losses and credits. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. The remaining subsidiaries are pass-through entities whose tax attributes are passed-through to the Foundation.

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.

Functional Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statement of activities and change in net assets. Expenses such as salaries and benefits, facilities, certain staff travel, certain office supplies and computer and technology, taxes, depreciation and amortization, and other indirect costs are allocated among program, management and general, and fundraising based on time estimates determined by Mozilla's management. All other costs are allocated directly to the functions they benefit.

Concentrations of Risk and Significant Customers

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Approximately 85% and 81% of Mozilla's revenues from customers with contracts were derived from one customer for the years ended December 31, 2023 and 2022, respectively. Receivables from that one customer represented 70% and 64% of the December 31, 2023 and 2022 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and cash equivalents and investments. As of December 31, 2023 and 2022, essentially all of the cash is in excess of the federally insured limits. In addition, cash equivalents and investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address these risks, Mozilla maintains an investment policy that sets out performance criteria, investment, and asset allocation guidelines, and actively manages the investments to these policies.

Accounting Pronouncements

Recently Adopted:

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 amended guidance related to impairment of financial instruments by replacing the incurred loss impairment methodology with an expected credit loss model for which a company recognizes an allowance based on the estimate of the credit loss expected over the life of the financial instrument. The standard was effective for Mozilla beginning January 1, 2023. The adoption of this standard did not have a material impact on these consolidated financial statements.

Not Yet Adopted

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

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

2023	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash equivalents:					
Money market funds	\$ 175,666	\$ 175,666	\$ -	\$ -	\$ -
Commercial paper	382	382	-	-	-
Total cash equivalents	176,048	176,048	-	-	-
Investments:					
Mutual funds					
Money market	22,539	22,539	-	-	-
Domestic	21,782	20,792	990	-	-
ETF: Minerals	683	683	-	-	-
Municipal bonds	3,127	-	3,127	-	-
Governmental and agency securities	404,819	-	404,819	-	-
Corporate debt securities	23,496	-	22,438	1,058	-
Asset-backed securities	574	-	574	-	-
Equities	246,328	237,350	-	8,978	-
Alternatives	283,506	-	-	270,235	13,271
Total investments	1,006,854	281,364	431,948	280,271	13,271
Total assets measured at fair value	\$ 1,182,902	\$ 457,412	\$ 431,948	\$ 280,271	\$ 13,271

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

2022	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash equivalents:					
Money market funds	\$ 393,356	\$ 393,356	\$ -	\$ -	\$ -
Commercial paper	18,766	-	18,766		
Total cash equivalents	412,122	393,356	18,766	-	-
Investments:					
Mutual funds					
Money market	-	-	-	-	-
Domestic	17,945	17,004	941	-	-
ETF: Minerals	606	606	-	-	-
Municipal bonds	13,080	-	13,080	-	-
Governmental and agency securities	164,117	-	164,117	-	-
Corporate debt securities	4,741	-	4,741	-	-
Asset-backed securities	412,112	-	412,112	-	-
Equities	-	-	-	-	-
Alternatives	18,523	-	-	-	18,523
Total investments	631,124	17,610	594,991	-	18,523
Total assets measured at fair value	\$ 1,043,246	\$ 410,966	\$ 613,757	\$ -	\$ 18,523

An investment's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There has been no change in the methodology used for the years ended December 31, 2023 and 2022.

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2023		2022		Redemption Frequency	Notice Period
	# of Funds	Valuation	# of Funds	Valuation		
Global macro fund (a)	1	\$ 1,756	1	\$ 2,202	Monthly	90 Days
Feeder fund (b)	1	315	1	406	None	N/A
Specific investments (c)	14	6,671	20	9,580	None	N/A
Venture funds (d)	4	4,529	4	6,335	None	N/A
Total	20	\$ 13,271	26	\$ 18,523		

There were \$0.5 million and \$1.3 million in unfunded commitments as of December 31, 2023 and 2022, respectively.

- (a) This fund invests in its affiliated Master Fund LP, whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.
- (b) This fund invests in its affiliated Master Fund LP, whose objective is to invest on a leveraged basis, in whole or in part, in collateralized and unsecured commercial loans and debt securities of corporations, partnerships, companies or other securities.
- (c) These are direct investments in various open source and security / privacy focused pre-seed funding round / early-stage companies, which are accounted for on a historical cost basis, less any impairments, as there is not readily available public information to determine fair value.
- (d) These venture funds make investments in various early-stage technology companies. Mozilla is a limited partner with no significant influence on the funds' investment strategies.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Note 4 - Property and Equipment:

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

	2023	2022	Useful Life (Years)
Computer equipment	\$ 3,464	\$ 4,524	2 - 3
Furniture and office equipment	858	2,680	3 - 7
Leasehold improvements	7,132	16,071	3 - 5
Software	54	54	1 - 3
Gross property and equipment	11,508	23,329	
Less accumulated depreciation	(10,027)	(21,090)	
Net property and equipment	\$ 1,481	\$ 2,239	

Depreciation and amortization expense, excluding amortization of goodwill and intangibles, amounted to \$1.2 million and \$1.8 million for the years ended December 31, 2023 and 2022, respectively.

Mozilla has recorded an asset retirement obligation liability of \$0.6 million and \$1.5 million as of December 31, 2023 and 2022, respectively. Mozilla recognized \$0.1 million and \$0.2 million in depreciation expense associated with the asset retirement obligation for the years ended December 31, 2023 and 2022, respectively.

Note 5 - Business Combination:

On April 26, 2023, Mozilla acquired 100% of the outstanding stock of Fakespot, Inc. (Fakespot) in exchange for cash and deferred contingent consideration in an amount less than 5% of total assets as of the date of acquisition. The results of Fakespot are included in Mozilla's consolidated financial statements since the date of acquisition. Fakespot was previously headquartered in New York and provides consumers a service to identify fake reviews on e-commerce sites using machine learning technology which will be 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.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Assets acquired, and liabilities assumed at the date of acquisition consisted of (in thousands):

Assets acquired and liabilities assumed

Cash and cash equivalents	\$	197
Working capital		21
Identifiable intangible assets		6,600
Deferred tax assets		963
Goodwill		19,614

Purchase consideration	\$	27,395
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Acquisitions costs of \$1.2 million were expensed as incurred separately from the business combination, and are classified as General and Administrative within the consolidated statement of activities and changes in net assets.

Note 6 - Goodwill:

Goodwill is amortized over an estimated useful life of 10 years. Amortization expense for the years ended December 31, 2023 and 2022 was \$4.0 million and \$2.6 million. Goodwill was as follows as of December 31 (in thousands):

	2023	2022	Estimated Useful Life (Years)
Goodwill	\$ 45,631	\$ 26,017	10
Less accumulated amortization	(16,982)	(13,009)	
Total goodwill, net	\$ 28,649	\$ 13,008	

Note 7 - Intangible Assets:

Intangible assets are amortized over their estimated useful lives on a straight-line basis. No residual value is estimated for the intangible assets.

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

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

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

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

The components of intangible assets were as follows, including those acquired via the business combination (Note 5), as of December 31 (in thousands):

	2023	2022	Estimated Useful Life (Years)
User base	\$ 2,000	\$ 1,500	3
Trade names and trademark	1,600	1,200	3
Developed technology	7,934	2,232	3
Domain rights	801	801	15
Gross intangible assets	12,335	5,733	
Less accumulated amortization	(5,879)	(3,948)	
Total intangible assets, net	\$ 6,456	\$ 1,785	

Amortization expense for the years ended December 31, 2023 and 2022 was \$1.9 million and \$0.1 million, respectively.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Estimated remaining amortization expense relating to intangible assets for each calendar year is as follows (in thousands):

Year Ending December 31,		
2024	\$	2,485
2025		2,630
2026		970
2027		53
2028		53
Thereafter		265
Total	\$	6,456

Note 8 - Net Assets With Donor Restrictions:

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

	2023	2022
Leadership Development: Responsible Computer Science Challenge	\$ 678	\$ 2,960
Leadership Development: Mozilla Open Web Fellowships	841	1,750
Leadership Development: Mozilla Tech and Society Fellowships	1,914	23
Leadership Development: Coil Open Internet	-	175
Leadership Development: Data Futures Lab	338	1,660
Leadership Development: MozFest 2023	-	314
Leadership Development: Catalyst Fund	367	-
Movement Building: Africa Innovation Mradi	-	94
Movement Building: Common Voice	725	1,518
Movement Building: Policy Change	-	80
Other	-	77
	\$ 4,863	\$ 8,651

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2023	2022
Leadership Development: Responsible Computer Science Challenge	\$ 2,532	\$ 621
Leadership Development: Mozilla Open Web Fellowships	909	877
Leadership Development: Mozilla Tech and Society Fellowships	109	879
Leadership Development: Coil Open Internet	175	210
Leadership Development: Data Futures Lab	1,322	590
Leadership Development: MozFest 2023	314	-
Leadership Development: Catalyst Fund	223	-
Movement Building: Africa Innovation Mradi	94	105
Movement Building: Common Voice	1,543	1,920
Movement Building: Policy Change	85	70
Other	77	102
	<u>\$ 7,383</u>	<u>\$ 5,374</u>

Note 9 - Income Taxes:

The following is a geographical breakdown of consolidated income before income taxes by tax jurisdiction for the years ended December 31 (in thousands):

	2023	2022
United States	\$ 133,836	\$ 187,982
Foreign	18,215	(18,932)
Income before provision for income taxes	<u>\$ 152,051</u>	<u>\$ 169,050</u>

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2023			
	Federal	State	Foreign	Total
Current provision				
Foundation	\$ 408	\$ 191	\$ -	\$ 599
Corporation	25,131	1,838	681	27,650
MZLA	444	2	-	446
Other	5	2	-	7
Deferred benefit				
Corporation	(13,215)	(1,320)	195	(14,340)
Total	\$ 12,773	\$ 713	\$ 876	\$ 14,362

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

The provision for income taxes differs from taxes calculated at the federal statutory rate primarily due to the activity related to Mozilla's unrecognized tax positions, nondeductible expenses, research and development credits, foreign operations, and state income taxes net of federal tax benefit.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

	2023	2022
Deferred tax assets:		
Net operating loss	\$ 3,851	\$ 1,093
Credits	10,251	8,997
Accrued expenses and other reserves	19,955	16,862
Asset retirement obligations	129	296
Right-of-use liability	509	1,447
Property and equipment	(537)	692
State tax deduction	756	1,861
R&D capitalization	58,956	42,156
Unrealized loss	-	5,128
Capital loss carryforward	7,254	422
Other	1,584	1,669
Total gross deferred tax assets	102,708	80,623
Less valuation allowance	(10,093)	(8,969)
Net deferred tax assets	92,615	71,654
Deferred tax liabilities:		
Prepaid expense	(1,016)	(1,017)
Right-of-use asset	(227)	(1,362)
Unrealized gain	(13,049)	-
Foreign deferred tax liabilities	5	(68)
Total gross deferred tax liabilities	(14,287)	(2,447)
Net deferred tax assets	\$ 78,328	\$ 69,207

As of December 31, 2023, Mozilla had approximately \$10.5 million of federal and \$31.7 million of state net operating loss carryforwards available to offset future taxable income. If not utilized, the federal and state operating loss carryforwards will begin to expire in 2036 for federal and 2033 for state.

As of December 31, 2023, Mozilla has federal and state research and development credit carryforwards of \$0.4 million and \$15.8 million, respectively, available to offset future tax liabilities. If not utilized, the carryforwards will begin to expire in 2034 for federal and will not expire for state.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Financial Interpretation (FIN) 48, now codified as Financial Accounting Standards Board Accounting Standards Codification (ASC) 740-10, provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. FIN 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

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

	2023	2022
Unrecognized tax benefits	\$ 14,426	\$ 12,111

Mozilla also accrued potential penalties and interest of \$0.4 million and \$0.3 million related to these unrecognized tax benefits during the years ended December 31, 2023 and 2022, respectively, and in total, has recorded a liability for potential penalties and interest of \$0.8 million and \$0.8 million, as of December 31, 2023 and 2022, respectively. Mozilla recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of activities and change in net assets. Accrued interest and penalties are included within the accrued liabilities line in the consolidated statement of financial position. Mozilla does not expect its unrecognized tax benefits to change significantly over the next 12 months.

As of December 31, 2023, the unrecognized tax benefit was \$14.4 million, of which \$7.9 million, if recognized, would affect the effective tax rate.

Mozilla files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. In U.S. jurisdictions, the 2018 through 2023 tax years generally remain subject to examination by their respective authorities. In state jurisdictions, the 2018 through 2023 tax years generally remain subject to examination by their respective authorities. In foreign jurisdictions, the 2012 through 2023 tax years generally remain subject to examination by their respective tax authorities.

Note 10 - 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 \$10.1 million and \$8.9 million for the years ended December 31, 2023 and 2022, respectively.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

For certain other foreign locations, Mozilla contributes employee benefits due in accordance with local labor regulations. Contributions totaled \$2.2 million and \$2.4 million for the years ended December 31, 2023 and 2022, respectively.

Note 11 - Commitments and Contingencies:

Included in cash and cash equivalents as of December 31, 2023 and 2022, respectively is approximately \$0 and \$1 million of collateral pledged for lease agreements.

Leases

Mozilla leases its various office spaces under operating leases, which require it to pay base rent, real estate taxes, insurance, general repairs and maintenance. Mozilla's leases are located in Canada and Germany with various expiration dates through 2026. Mozilla previously had leases in San Francisco, CA (expired in August 2023), Portland, OR (expired in November 2022), and France (expired in April 2023). Some leases have options to renew and certain leases are guaranteed by letters of credit. Lease expense for the years ended December 31, 2023 and 2022 totaled \$4.0 million and \$6.3 million, respectively.

Lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the remaining minimum lease payments over the lease term, with certain adjustments as described in Note 2. As Mozilla's leases do not provide an implicit rate, and in accordance with the private company exemptions available under ASC 842, Mozilla uses a risk-free interest rate based on the information available at commencement date in determining the present value of lease payments.

As of December 31, 2023 and 2022, Mozilla had ROU assets of \$2.3 million and \$5.9 million, respectively, and lease liabilities related to its operating leases of \$2.3 million and \$6.3 million, respectively. ROU assets are included in *prepaid expenses and other assets* and lease liabilities are included within *other liabilities* on the consolidated statement of financial position. During the fiscal years ended December 31, 2023 and 2022, Mozilla paid \$4.1 million and \$6.4 million, respectively, in cash related to its operating leases. As of December 31, 2023 and 2022, the weighted-average remaining lease term was 2.0 years and 2.6 years, respectively, and the weighted-average discount rate related to Mozilla's operating leases was 1.5% and 2.57%, respectively.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

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

Year Ending December 31,	
2024	\$ 1,327
2025	705
2026	353
Total scheduled payments	2,385
Less discount to present value	(105)
Present value of lease liability	\$ 2,280

Operating lease amounts above do not include sublease income. Mozilla has entered into various sublease agreements with third parties for portions of its unused office spaces. Sublease income was \$1.1 million and \$1.7 for the years ended December 31 2023 and 2022, respectively. Mozilla currently does not expect to receive any future sublease income.

Long-Term Service Arrangements

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

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

Year Ending December 31,	
2024	\$ 22,596
2025	22,528
2026	10,194
Total contractual obligations	\$ 55,318

Legal Matters

From time to time, Mozilla may be party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages. Mozilla makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Mozilla Foundation and Subsidiaries

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In May 2023, Mozilla filed legal claims against Beijing Mozilla Firefox Information Technology, Ltd. (Mozilla Online) with the long-term intent to wind down its operations in China. The contract recently expired between Mozilla Corporation and Mozilla Online. Although both parties attempted to negotiate a renewal in good faith, an agreement has not been reached. The litigation is still in process.

Unless otherwise specifically disclosed in this note, Mozilla has determined that no provision for liability nor disclosure is required related to any claim against Mozilla because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

Note 12 - Related Party Transactions:

The Corporation and MZLA pay license fees per trademark license agreements with the Foundation. The Corporation pays the Foundation a royalty payment based on the Corporation's annual royalties revenue. The Corporation incurred \$18.4 million and \$19.1 million in license fees to the Foundation for the years ended December 31, 2023 and 2022, respectively.

The trademark license agreement between MZLA and the Foundation stipulates that MZLA will pay the Foundation a royalty payment based upon the revenue generated from certain products. MZLA paid \$0.267 million and \$0.195 million in license fees to the Foundation for the years ended December 31, 2023 and 2022, respectively.

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

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

A China subsidiary of Mozilla Corporation made a distribution to its minority shareholder in the amount of \$0 and \$0.5 million for the years ended December 31, 2023 and 2022, respectively. The amount is reported as a distribution on Mozilla's consolidated financial statements, but Mozilla Foundation itself did not make any distributions.

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

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

Note 13 - Availability of Financial Assets and Liquidity:

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

	2023	2022
Financial assets at year end		
Cash and cash equivalents	\$ 263,323	\$ 513,780
Receivables	55,363	60,231
Investments	1,006,854	631,124
Total financial assets	1,325,540	1,205,135
Less amounts not available to be used within one year:		
Investments with liquidity restrictions	(13,515)	(16,321)
Other assets	-	(1,000)
Net assets with donor restrictions	(4,863)	(8,651)
Add net assets with purpose restrictions to be met in less than a year	1,602	7,221
Total amounts not available to be used within one year	(16,776)	(18,751)
Financial assets available to meet general expenditures over the next twelve months	\$ 1,308,764	\$ 1,186,384

Mozilla has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. Donor-restricted assets that are not available for general expenditure within the next year, are more fully described in Note 8.

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

Note 14 - Subsequent Events:

Mozilla evaluated subsequent events from December 31, 2023 through December 9, 2024, the date these financial statements were available to be issued. In June 2024, Mozilla acquired Anonym, Inc., which provides privacy-preserving digital advertising services enabling scalable, privacy-safe measurement and optimization of advertiser campaigns to lead a shift toward a more sustainable advertising ecosystem. Mozilla obtained 100% of Anonym's outstanding stock for an amount equating to less than 5% of total assets of the Company on the date of the acquisition.

Mozilla Foundation and Subsidiaries

Notes to the Consolidated Financial Statements

There were no other material subsequent events that required recognition or additional disclosure in these financial statements.