MOZILLA FOUNDATION AND SUBSIDIARIES

DECEMBER 31, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Mozilla Foundation and Subsidiaries

Independent Auditors' Report
and
Consolidated Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **MOZILLA FOUNDATION AND SUBSIDIARIES (Mozilla)** which comprise the consolidated statement of financial position as of December 31, 2012 and 2011, 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 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 the entity'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 the entity'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.

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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 Subsidiaries as of December 31, 2012 and 2011, 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
November 4, 2013

Mozilla Foundation and Subsidiaries

Consolidated Statement of Financial Position
(In thousands)

December 31,		2012		2011
Assets				
Cash and cash equivalents	$	81,512	$	39,757
Receivables		33,453		29,576
Prepaid expenses and other assets		5,728		3,120
Prepaid income taxes		8,762		5,191
Investments		120,825		103,320
Deferred tax benefits		128		
Furniture and equipment, net		17,229		13,006
Total assets	$	267,637	$	193,970

Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	5,587	$	7,210
Accrued liabilities		17,387		11,545
Deferred tax liabilities				1,024
Deferred revenue		510		148
Unrecognized income tax benefits		4,000		3,387
Total liabilities		27,484		23,314
Net Assets:				
Unrestricted		236,245		167,636
Temporarily restricted		3,908		3,020
Total net assets		240,153		170,656
Total liabilities and net assets	$	267,637	$	193,970

The accompanying notes are an integral part of these statements

Mozilla Foundation and Subsidiaries

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

Years Ended December 31,	2012	2011
Unrestricted Net Assets:		
Revenues and other support:		
Royalties	$ 304,539	$ 161,904
Interest and dividend income	922	1,007
Net realized and unrealized gain (loss) from investments	505	(237)
Contributions	855	448
Foreign currency exchange gain (loss)	159	(550)
Loss on sale of assets	(38)	(19)
Net assets released from restrictions	4,063	921
Total unrestricted revenue and support	311,005	163,474
Expenses:		
Program:		
Program services	8,074	4,259
Software development	149,018	103,133
Support:		
Branding and marketing	29,545	17,531
General and administrative	21,950	19,761
Other expenses		800
Total expenses	208,587	145,484
Change in Unrestricted Net Assets before Provision (Benefit) for Income Taxes	102,418	17,990
Provision (benefit) for income taxes	33,809	(3,678)
Change in Unrestricted Net Assets	68,609	21,668
Change in Temporarily Restricted Net Assets:		
Contributions	4,951	2,827
Net assets released from restriction	(4,063)	(921)
Change in Temporarily Restricted Net Assets	888	1,906
Change in Net Assets	69,497	23,574
Net Assets - beginning of year	170,656	147,082
Net Assets - end of year	$ 240,153	$ 170,656

The accompanying notes are an integral part of these statements.

Mozilla Foundation and Subsidiaries

Consolidated Statement of Cash Flows
(In thousands)

Years Ended December 31,	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	$ 69,497	$ 23,574
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	7,419	3,926
Net realized and unrealized (gain) loss on investments	(505)	237
Foreign currency exchange (gain) loss	(159)	550
Unrecognized income tax benefits	613	(9,080)
Change in deferred taxes	(1,152)	216
Loss on sale of assets	38	19
Changes in assets and liabilities:		
Receivables	(3,877)	(13,620)
Prepaid expenses and other assets	(2,608)	(1,716)
Accounts payable and accrued expenses	4,219	10,309
Prepaid income taxes	(3,571)	(1,206)
Deferred revenue	362	142
Net cash provided by operating activities	70,276	13,351
Cash Flows from Investing Activities:		
Purchases of property and equipment	(11,619)	(10,054)
Purchases of investments	(99,057)	(51,029)
Proceeds from sale of investments	82,308	52,988
Net cash used by investing activities	(28,368)	(8,095)
Effect of Exchange Rate Changes on Cash	(153)	(389)
Net Increase in Cash and Cash Equivalents	41,755	4,867
Cash and Cash Equivalents - Beginning of year	39,757	34,890
Cash and Cash Equivalents - End of year	$ 81,512	$ 39,757
Supplemental Disclosure:		
Cash paid for income taxes	$ 37,655	$ 8,038

The accompanying notes are an integral part of these statements.

Note 1 - Nature of the Organization:

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

The Foundation has a wholly-owned for-profit subsidiary, Mozilla Corporation (the Corporation). The Corporation serves the non-profit, public benefit goals of its parent and is responsible for product development, marketing and distribution of Mozilla products. The Corporation has wholly-owned subsidiaries operating in China, Europe, Canada, New Zealand, Australia and Taiwan to further its mission in those locations.

Mozilla Messaging (Messaging), a wholly-owned for-profit subsidiary was dissolved on May 31, 2011 and its assets distributed to its sole stockholder, the Corporation, after the contribution of Messaging shares to the Corporation.

Mozilla Japan is an independent organization contracted by the Corporation to provide marketing and development services and promote the use of Mozilla products in its geographic region. Mozilla Japan has been granted the right to use the Mozilla name by the Foundation. Neither the Foundation nor the Corporation has any controlling interest in Mozilla Japan.

Note 2 - Summary of Significant Accounting Policies:

a. <u>Basis of Accounting</u>

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

b. <u>Principles of Consolidation</u>

The consolidated financial statements include the accounts of the Foundation and the Corporation and Messaging through its date of dissolution (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.

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.

d. Cash and Cash Equivalents

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

e. Receivables

Receivables consist primarily of amounts due from contracts with multiple search engine and information providers, and are carried at original invoice amount or accrued based on contractual agreements with each search provider. An allowance for uncollectible receivables is appropriately considered depending upon prior history and management's assessment of collectability. For 2012 and 2011, management has deemed all amounts to be fully collectible. Therefore, no allowance has been deemed necessary for any receivables.

Mozilla has $1,907,000 and $123,000 in grants receivable at December 31, 2012 and 2011, respectively.

f. Investments

Investments, which consist of money market funds, marketable equity and debt securities, mutual funds, various government issued securities, and commercial paper are stated at fair value, based upon quoted market prices for identical assets in active markets or in markets that are not active. Changes in fair value are recognized on a current basis in the statement of activities and change in net assets. Alternative investments include various hedge funds. The fair values of these investments have been estimated using the net asset value per share or ownership interest of the investment.

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. 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.

Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities 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 that are subject to Financial Accounting Standards Board (FASB) Codification Topic 820.

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. 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. In addition, Mozilla receives royalties from the sale of various products on its website. Mozilla records revenue based upon the amounts received, with the revenue recorded on an accrual basis.

j. Contributions

Contributions are recorded at fair value when the donor makes an unconditional promise to give. Contributions collected by third parties are recorded as revenue when received by the third party. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires 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 has $498,000 and $1,316,000 in conditional promises at December 31, 2012 and 2011, respectively.

k. Software Development Costs

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

l. Advertising Costs

Mozilla expenses advertising costs as incurred. Advertising and promotional expense for the year ended December 31, 2012 and 2011 amounted to $2,424,000 and $1,887,000, respectively.

m. Grants

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

n. 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 and Messaging are both C corporations. Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. 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.

Mozilla follows the accounting standard on accounting for uncertainty in income taxes, whereby the impact of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained. Also, interest expense, if any, is recognized on the full amount of deferred benefits for uncertain tax positions.

o. 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.

p. 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 as other revenue and support in the consolidated statement of activities and change in net assets.

q. 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.

r. Functional Expenses

Expenses are allocated to functional areas based on management's estimates. There were no direct fundraising expenses incurred and the incidental expenses were immaterial. Program services include costs related to furthering the Mozilla open-source project. Grants totaling approximately $820,000 and $406,000 are included in program services for 2012 and 2011, respectively.

s. Recent Accounting Pronouncements

The FASB has issued amendments that require a not-for-profit entity (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The amendments are required for the year ended June 30, 2014. Mozilla is currently evaluating the impact of adoption on its consolidated financial statements.

t. Subsequent Events

Mozilla evaluated subsequent events through November 4, 2013, the date these financial statements were available to be issued. With the exception of those matters discussed in Notes 6, 9 and 10, there were no material subsequent events that required recognition.

Note 3 - Investments and Fair Value Measurements:

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

2012	Total	Level 1	Level 2	Level 3
Money market funds	$ 24,618,000	$24,618,000		
Mutual funds				
Domestic	4,663,000	4,058,000	$ 605,000	
International	389,000	389,000		
EFT: Minerals	1,070,000	1,070,000		
Government bonds	2,476,000		2,476,000	
Commercial paper: Financial	12,290,000		12,290,000	
U.S. Agency funds	6,813,000	2,023,000	4,790,000	
Municipal bonds	2,070,000		2,070,000	
Mortgage and asset-backed securities	6,741,000		6,741,000	
Corporate debentures/bonds:				
Industrial	15,774,000	1,000	15,773,000	
Financial	34,240,000		34,240,000	
Utility	6,374,000		6,374,000	
Hedge funds	3,307,000		3,307,000	
	$120,825,000	$32,159,000	$88,666,000	

2011	Total	Level 1	Level 2	Level 3
Money market funds	$ 22,035,000	$21,332,000	$ 703,000	
Mutual funds - fixed income:				
Domestic	5,931,000	5,931,000		
International	679,000	679,000		
Government bonds	4,519,000		4,519,000	
Commercial paper:				
Financial	10,743,000		10,743,000	
U.S. Agency funds	26,150,000	13,021,000	13,129,000	
Municipal bonds	6,872,000		6,872,000	
Mortgage and asset-backed securities	1,133,000		1,133,000	
Corporate debentures/bonds:				
Industrial	6,162,000		6,162,000	
Financial	15,874,000		15,874,000	
Hedge funds	3,222,000		2,055,000	$1,167,000
	$103,320,000	$40,963,000	$61,190,000	$1,167,000

The changes in investments classified as Level 3 are as follows:

	2012	**2011**
	Global Macro Hedge Fund	Global Macro Hedge Fund
Beginning balance	$ 1,167,000	$ 1,046,000
Unrealized gains		121,000
Transfers to level 2	1,167,000	
Ending balance	$ -	$ 1,167,000

Mozilla transferred its Level 3 investment to Level 2 due to expiration of time restrictions.

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, 2012 and 2011.

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 uses Net Asset Value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table provides information for investments using NAV to determine fair value as of December 31:

2012	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,175,000	monthly	60
Global macro fund (b)	1	1,184,000	quarterly	90
Managed futures funds (c)	2	948,000	monthly	10
Total		$3,307,000		

2011	No. of Funds	Fair Value	Redemption Frequency	Redemption Notice Period (days)
Event driven fund (a)	1	$1,049,000	monthly	60
Global macro fund (b)	1	1,167,000	quarterly	90
Managed futures funds (c)	2	1,006,000	monthly	10
Total		$3,222,000		

There were no unfunded commitments as of December 31, 2012 and 2011.

(a) This fund invests in an affiliated Master Fund LP, an exempt limited partnership whose investment strategy includes global common stock, preferred stock, and convertible debt, futures, forward settlement contracts, short option contracts, swap agreements and various other derivatives.

(b) This fund invests in an affiliated Master Fund, an exempt limited liability company whose investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.

(c) These funds seek medium term capital growth directly and indirectly, of physical commodities, futures contracts, spot and forward contracts, options on the foregoing, exchanges of futures for physical transactions and other investments on domestic and international exchanges and markets (including the interbank and over the counter (OTC) markets).

Note 4 - Property and Equipment:

Property and equipment as of December 31 are as follows:

	2012	2011	Useful Life (Years)
Computer equipment	$19,402,000	$12,420,000	3
Furniture and office equipment	5,755,000	4,235,000	3 - 7
Leasehold improvements	8,493,000	5,445,000	3 - 4
Software	814,000	800,000	1 - 3
	34,464,000	22,900,000	
Less accumulated depreciation	(17,235,000)	(9,894,000)	
Net property and equipment	$17,229,000	$13,006,000	

Depreciation and amortization expense totaled $7,419,000 and $3,926,000 for the years ended December 31, 2012 and 2011, respectively.

Note 5 - Temporarily Restricted Net Assets:

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

	2012	2011
Fellowships	$ 1,214,000	$ 1,248,000
Badges project	1,001,000	892,000
Hive project	674,000	533,000
Webmaker (Drumbeat) program		280,000
Collusion project	225,000	
Open science project	646,000	
Participatory journalism project	65,000	
Other	83,000	67,000
	$ 3,908,000	$ 3,020,000

Net assets were released from donor restrictions during the year ended December 31, 2012 and 2011 by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events as follows:

	2012	2011
Badges project	$ 1,141,000	$ 109,000
Hive project	881,000	164,000
Fellowships	759,000	402,000
US ignite project	382,000	60,000
Participatory journalism project	284,000	
Drumbeat program	280,000	
Open science project	164,000	
Web made movie project		115,000
Collusion project	74,000	
ITU project	53,000	
Open video project		50,000
Other	45,000	21,000
	$ 4,063,000	$ 921,000

Note 6 - Income Taxes:

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

	2012			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ (500,000)			$ (500,000)
Corporation	32,855,000	$ 658,000	$2,042,000	35,555,000
	32,355,000	658,000	2,042,000	35,055,000
Deferred provision (benefit)				
Corporation	(828,000)	(419,000)	1,000	(1,246,000)
	(828,000)	(419,000)	1,000	(1,246,000)
Total	$31,527,000	$ 239,000	$2,043,000	$33,809,000

	2011			
	Federal	State	Foreign	Total
Current provision (benefit)				
Foundation	$ (7,762,000)	$ (2,227,000)		$ (9,989,000)
Corporation	4,739,000	321,000	$ 1,043,000	6,103,000
	(3,023,000)	(1,906,000)	1,043,000	(3,886,000)
Deferred provision (benefit)				
Corporation	746,000	(596,000)	58,000	208,000
	746,000	(596,000)	58,000	208,000
Total	$ (2,277,000)	$ (2,502,000)	$ 1,101,000	$ (3,678,000)

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

	2012	2011
Total assets	$ 2,169,000	$ 2,782,000
Total liabilities	(2,041,000)	(3,806,000)
	$ 128,000	$ (1,024,000)

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

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

	Foundation	Corporation	Total
Balance at December 31, 2010	$ 11,995,000	$ 472,000	$ 12,467,000
Increases related to current tax positions		292,000	292,000
Increases related to prior year tax positions		887,000	887,000
Reductions related to prior year tax positions		(58,000)	(58,000)
Settlements	(9,995,000)	(89,000)	(10,084,000)
Lapse of time restrictions		(117,000)	(117,000)
Balance at December 31, 2011	2,000,000	1,387,000	3,387,000
Increases related to current tax positions		892,000	892,000
Increases related to prior year tax positions		1,837,000	1,837,000
Settlements	(2,000,000)		(2,000,000)
Lapse of time restrictions		(116,000)	(116,000)
Balance at December 31, 2012	$	$ 4,000,000	$ 4,000,000

Mozilla also accrued potential penalties and interest of $13,000 and $5,000 related to these unrecognized tax benefits during 2012 and 2011, respectively, and in total, as of December 31, 2012 and 2011, Mozilla has recorded a liability for potential penalties and interest of $103,000 and $590,000, 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 benefits line in the statement of financial position.

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

In 2012, the IRS closed its examination of the Foundation's federal tax returns for the years 2004 through 2007, and accepted tax returns related to years 2006 through 2007 as filed. All items were settled with payment of $1.5 million during 2012. As the examination was progressing, the Foundation recognized $500,000 and $9,989,000 of income tax benefits in 2012 and 2011 respectively. The final settlement represented less than 10% of the original $16 million liability accrued for this matter.

In 2012, the Corporation was informed by the IRS that it will be examining the Corporation’s income tax returns for 2009 and 2010. Subsequent to year end, the Corporation was notified of adjustments to refunds claimed on income tax returns from 2008 through 2010 of approximately $2,400,000 which are included in Mozilla's unrecognized tax benefits.

Note 7 - Retirement 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 $4,433,000 and $2,831,000 for 2012 and 2011, respectively.

For certain other foreign operations, Mozilla contributes, in accordance with local labor regulations, employee benefits due in the event of involuntary termination. Contributions totaled $867,000 and $444,000 for 2012 and 2011, respectively.

Note 8 - Concentrations of Risk:

Mozilla entered into a contract with a search engine provider for royalties which expires November 2014. The previous contract term expired in November 2011. Approximately 90% and 85% of royalty revenue for 2012 and 2011, respectively, was derived from this contract. The receivable from this search engine provider represented 69% and 77% of the December 31, 2012 and 2011 outstanding receivables, respectively.

Mozilla has defined its financial instruments which are potentially subject to credit risk as cash and cash equivalents and investments. At December 31, 2012 and 2011, essentially all of the cash and cash equivalents and investments are in excess of the federally insured limits. In addition, investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address these risks, Mozilla maintains an investment policy that sets out performance criteria, investment, and asset allocation guidelines, and actively manages the investments to these policies.

At December 31, 2012 and 2011, 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:

	2012	2011
Assets:		
Europe	$ 18,205,000	$ 14,534,000
Asia	4,698,000	3,839,000
North America	3,997,000	2,873,000
Australia and Oceanic	1,007,000	769,000
	$ 27,907,000	$ 22,015,000

	2012	2011
Liabilities:		
Europe	$ 16,249,000	$ 13,396,000
Asia	412,000	257,000
North America	2,543,000	2,262,000
Australia and Oceanic	563,000	242,000
	$ 19,767,000	$ 16,157,000
Foreign currency transaction gain (loss), net	$ 159,000	$ (550,000)

Note 9 - Commitments:

Mozilla leases office spaces under leases which expire through September 2021. Some leases have options to renew and one is collateralized by an unconditional, irrevocable, transferable, letter of credit. Rent expense for 2012 and 2011 totaled $7,439,000 and $4,823,000, respectively. Future minimum lease commitments are as follows, and include all base rent and operating expenses:

Year Ended	
2013	$ 8,366,000
2014	8,303,000
2015	8,241,000
2016	7,426,000
2017	5,937,000
Thereafter	12,360,000
	$ 50,633,000

Included above is a lease in Germany commencing in 2013 which provides for a loan of approximately $925,000 for the financing of tenant works (leasehold improvement). The loan may only be used for tenant works and will be distributed in three installments after providing verified invoices of tenant works of expenses incurred. Interest rate on the loan is 8% per year on the outstanding balance and calls for monthly payments of principal and interest and matures February 2018.

Note 10 - Related Party Transactions:

The Corporation pays an annual licensing fee in the amount of $10,000 to the Foundation for use of the Mozilla name.

The Corporation allows various Foundation employees to use its offices.

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

In 2012, the Corporation's Board of Directors approved and the Corporation paid $2.5 million in dividends to its sole stockholder of record, the Foundation. During 2012, the Corporation's Board subsequently agreed to amend the license agreement between the Corporation and the Foundation for the use of the Mozilla name effective December 19, 2012. Per the amended agreement, the Corporation shall pay the Foundation two percent (2%) of its annual net revenues related to the use of the trademarks less approved expenses. The Corporation expects to make a payment of approximately $6 million under the amended agreement in 2013.