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SENT VIA EMAIL AND OVERNIGHT COURIER
director@fasb.org

January 31, 2003

Financial Accounting Standards Board
Of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1102-001

To whom it may concern:

We are writing to comment on the FASB proposal to consider changes in the U.S. GAAP accounting treatment of employee stock option ("ESO") programs.

QUALCOMM maintains very broad equity-based incentive programs for its employees. Our entire domestic workforce of 6,000+ employees receives stock options at the time of hire, including regular and part-time employees. We attract top-notch talent from such schools as Stanford, UC Berkeley and MIT, and we have created a successful culture of active employee involvement, participation and innovation. For five consecutive years, our Company has been ranked as one of the "Best 100 Companies to Work For in America" by Fortune Magazine. We believe that the retention of our employee base is a core reason that we have been successful at developing new products and services, thus making us a market leader. With a voluntary domestic turnover rate at a low 4.2% over the last three years, we have been able to forge strong internal working relationships and teams able to tackle complex and lengthy R&D efforts that have contributed to the continuity of our intellectual capital. Our stockholders have benefited greatly by sharing ownership and wealth creation with employees, and we believe stock options have been instrumental to our Company's growth and success.

In our opinion, stock options granted to employees represent a cost borne by stockholders, not the company. If the expensing of stock options becomes mandatory and earnings are reduced by this non-cash expense, we believe it is likely to cause a very negative effect on employee motivation and morale at many companies, particularly in the high tech industry. Such accounting may force employers with broad-based stock option programs to reduce or eliminate employee stock option grants to minimize or preclude investor confusion. Companies such as QUALCOMM will unnecessarily incur disproportionately large costs in hiring, recruitment and retention programs unless they reduce their

use of stock options. Incentive-based stock compensation will tend to become more concentrated in the upper ranks, which is exactly the opposite of what many critics would like to see.

Before any changes are proposed to current U.S. accounting guidelines for stock compensation plans, we would first ask you to consider three fundamental observations:

1. We believe long-term cash flow per share is the true measure of a company's shareholder value. Unfortunately, some accounting guidelines have become so complex and arcane that reported results can differ materially from actual cash flows even over the long term. We believe that ESO expensing would result in a greater distortion of reported results, particularly for tech companies, and therefore *stock option expensing is economically irrelevant to the true per share value of a company*. ESO expensing will confuse investors and cause GAAP earnings to drift farther away from economic reality. This problem will be exacerbated in periods of stock market declines that lead to worthless, unexercised stock options, rendering historical FAS 123 expenses illusory and misleading in retrospect. Many users of financial statements do not understand that employees may realize less in profits from ESOs than the expense reported under FAS 123. A requirement that companies expense stock options which may never provide a benefit to employees will not help investors accurately understand and interpret corporate earnings and true per share valuations.

   While it is undoubtedly important for companies to disclose ESO information to investors, we believe it correctly belongs as supplemental information in a footnote to financial statements.

2. We agree with stock analysts and institutional investors who have told us that *stock option expensing does not represent truly useful information about company performance*. It's much like the problem with goodwill accounting, which was generally excluded from consideration by investors as not relevant to current performance. If ESO expensing becomes mandatory in the U.S., we believe savvy investors, particularly those investing in companies with broad-based stock option programs, will become even more motivated to disregard GAAP accounting and focus on "core operating" or "pro forma" operating results. This will contribute to the trend of moving away from GAAP accounting and will defeat the FASB's objective to present consistent GAAP financial results. We believe it would be unfortunate for U.S. companies to change financial reporting methods if the change is likely to be sidestepped by investors and, in turn, worsen general perceptions about public company accounting.

3. We believe *stock option expensing would have made very little, if any, difference in corporate honesty and disclosure at Enron, Worldcom, and other companies with poor corporate governance practices.* We do not believe the real issue behind the renewed attention to this issue is the accounting treatment of employee stock options. We advocate focusing attention on the broader debate of corporate governance, executive compensation policies and investor education about stock option programs and their potential effects on stock valuation.

We also believe it is important to note the results of several recent studies* on the effectiveness of employee stock compensation programs in the U.S.:

- An analysis of more than 70 empirical studies of employee ownership programs over the past 25 years has shown that every major study found that investors come out ahead if their company adopted key elements of partnership capitalism. These gains were realized *after* factoring in the dilution borne by outside shareholders. Not one of the studies found a negative result in terms of total shareholder returns. On average, shareholder returns were boosted 2%,

productivity improved 4%, and these new levels were sustained indefinitely. Return on equity increased 14% and return on assets increased 12%. Profit margins increased 11%.

- A study published in 2000 of 490 public companies that offered stock options to most or all of their employees found that, compared to public companies without broad-based option plans, the broad-based option companies' average productivity grew 6% faster from the mid-80's to the mid-90's than companies with no employee option plans. Their return on assets also increased 16% more than all public companies, and their average annual stock returns improved by 23% versus 18% for all non-option public companies.

- A follow-up study published in 2002 on 229 public "knowledge industry" companies, most of them in communications, high-tech manufacturing, pharmaceuticals, and computer software, found that these companies' average productivity grew 20% more over the decade than the firms that had no broad-based option plans.

- A study in 2001 by three professors at University of Pennsylvania's Wharton School of Business examined 217 high-tech firms and concluded that granting options to mid- and lower-level employees resulted in higher-than-average returns to shareholders.

  * Source: Joseph Blasi, Douglas Kruse and Aaron Bernstein, *In The Company of Owners* (New York: Basic Books, 2003), pages 155-157 and 170-172.

<u>Responses to FASB Invitation to Comment</u>

- ***<u>FASB Issue 2(d)</u>***. We suggest consideration of a mechanism for public companies to apply a discount to the valuation outcome of Black-Scholes or binomial options-pricing models to make allowance for the employment, vesting and liquidity restrictions and varying tax treatment of ESOs, whether they are non-qualified or incentive stock options (see discussion of ESO characteristics in Section 3 below). We do not believe that the discount resulting from using the expected life of the option (in accordance with FASB Statement 123) is sufficient to incorporate the effect of these restrictions. The economic drawbacks of these restrictions are not otherwise reflected in the historical or implied volatility statistics of publicly traded stocks. Guidelines on discounts for ESOs with specific characteristics (i.e., vesting schedules, expiration dates, etc.) could be provided by academicians or by non-affiliated investment banks.

- ***<u>FASB Issue 15</u>***. We believe that all of the tax benefits derived from stock-based compensation should be recognized in the income statement. Doing so will bring the accounting treatment more in line with the true economic and tax flow impact resulting from the stock option tax deduction.

  The Proposed International Financial Reporting Standard, *Share-based Payment* ("Proposed IFRS"), reaches the same conclusion for what we believe is the wrong reason. It ties the treatment of the tax benefit to a view of what the treatment of the stock-based compensation arrangement should be (income statement impact). Contrary to the position in FASB Statement 109, we see no conflict in not expensing stock options in the income statement while reflecting the tax benefits derived from stock options in the income statement. Doing so reflects the economic and cash-flow realities to the company and provides investors with the clearest picture of operating results. Issuing stock to employees is not a cash outflow or economic cost

to the company. Receiving tax benefits from the issuance of stock options is both an economic and cash flow benefit to the company and should be reflected in the income statement.

We strongly disagree with FASB Statement 123. There is no justification for recording the excess of realized tax benefits from equity awards over the recorded tax benefits to additional paid-in capital, while recording any shortfall of realized tax benefits below the recorded tax benefits to the income statement. To reflect the economic and cash-flow realities to the company and provide investors with the clearest picture of operating results, both the excess and shortfall should be reflected in the income statement.

Here is our general view of employee stock options, followed by our conclusions and recommendations:

1. Benefits of ESOs

The U.S. high tech sector is an engine of wealth and innovation that has made our economy the envy of the world. Stock options are an important tool for public companies to attract and retain skilled workers. They motivate employees to strive for excellence. They inspire creativity, loyalty, entrepreneurship and hard work. Stock options are granted to create incentive for future performance. They allow start-up companies that are short on cash to hire talented employees and to preserve scarce capital funds for research and development. Stockholders benefit from ESO programs because they expect to receive a financial return that is greater than the potential cost they will bear by sharing ownership with employees.

Stock options align the long-term interests of employees and stockholders. They give employees a stake in the company's future growth. They reward employees for improving the company's value over a long period of time. They penalize employees for ineffective performance over time. Employees realize financial gains from stock options only if corresponding value is achieved for the company's shareholders. Employees don't make a profit unless stockholders do, too.

Shareholders of public companies must approve stock option plans and authorize the number of common shares to be allocated for employee stock option plans. Most stock option plans provide incentives to build long-term growth by imposing employment, vesting, and liquidity restrictions on employees. In general, employees must remain employed with a single company for a long period of time before they receive ownership rights to stock options, and they are not permitted to sell or transfer their stock options to third parties except in unusual circumstances. Stockholders have control and can vote against plans that do not have these characteristics or that do not appear to be in their best interests.

2. Costs of ESOs

ESOs carry potential costs that are incurred only if stock options are exercised. There are two types of costs, each borne by *stockholders* (not the company). First, the company agrees to issue more shares and dilute stockholders in the future. This potential cost is already accounted for in diluted EPS under the treasury stock method. Second, when stock options are exercised, the company sells stock at a price below market value and incurs an opportunity loss on the sale of its equity capital. For preexisting stockholders (i.e., those stockholders who held shares on the date of the option grant and continue to hold shares at the time of option exercise), this opportunity cost is offset by the gain on the stock's appreciated market value at the time of option exercise. It seems appropriate that stockholders bear the costs of stock options and enjoy the upside benefits that result from stock options. Some

critics argue that the opportunity loss is a cost to the company, but, in return, the company has gained valuable consideration from employees in service that led to share price appreciation for stockholders. In any case, U.S. GAAP does not require the expensing of opportunity costs. Finally, no actual costs are incurred if stock options end up underwater (i.e. their strike prices are above the stock's market value), or are cancelled, revoked, forfeited, unvested, or expire worthless.

This simplified example illustrates why stock options represent a potential cost and benefit for the owners of a company and not a cost to the company itself:

> *A shopkeeper runs a small, but profitable retail business. He is the sole-proprietor and owner of the store. Revenues are normal, and expenses include wholesale costs, rent, utilities, etc. The shopkeeper hires a new assistant and increases expenses to pay the assistant's salary. The new employee becomes an important addition to the business.*
>
> *The shopkeeper decides to give the employee an added incentive to improve the business. He offers the assistant a small amount of ownership in the store if the employee stays and contributes to the store's growth, and if the business realizes an increase in value. However, there will be no ownership if the employee is terminated, leaves early, or the store does not increase in value.*
>
> *The employee accepts the offer and values the potential to share in future profits. As the years go by, the employee contributes a number of valuable ideas that improve the business's revenues, competitiveness and profitability. The shopkeeper becomes wealthier as the store increases in size and value.*

In this simple example, the costs of running the store did not change and there were no cash payments to the employee in connection with sharing ownership. The true costs of the arrangement were the potential dilution of the shopkeeper's ownership and the sale of an ownership interest at a pre-existing value in time. There would appear to be little downside to the shopkeeper because *these costs are incurred only if the store's value increases over time*. The owner's upside is employee motivation and growth in the value of the company.

Some critics complain that the current accounting treatment of ESOs using APB 25 (intrinsic value method) does not result in a cost to the company. In a practical sense, this is not true. Companies and employees must work harder to achieve EPS growth, because the financial impact of ESOs is factored into diluted EPS, and greater earnings must be achieved in order to increase stock value. Let's assume 100 options are granted at today's market value of $10 per share, vesting over four years, 25% per year at the end of each year. Now let's further assume that in the quarter after the option grant, the average daily value of the stock increases to $12.50 per share. Simplistically, under the *treasury stock method* of accounting, at the end of that quarter, 20% of the shares, or 20 shares, will be added to the number of shares outstanding and will be figured into the EPS calculation. Now the company has to "earn" additional profits on those 20 shares, even though they don't technically exist because the employee has not yet earned the right to acquire the shares. For EPS to increase, the company must earn more than it would if the options did not exist. And if EPS doesn't increase, neither does the stock price, and neither the employees nor the shareholders realize an increase in value. So, under current accounting policy, there most certainly is a cost imposed on the company when it issues stock options.

For those who truly believe ESOs represent an expense to the company that can be reasonably measured with an option pricing model, they can get comprehensive information on those costs today. As permitted by FAS 123, our Company uses APB 25 to account for its stock-based compensation

programs. Since our Company issues at-the-money ESOs with no intrinsic value upon grant, there are no costs recorded from granting new options. However, each year we have disclosed in our financial footnotes the pro forma net earnings and EPS impact of the FAS 123 "fair value" costs of ESOs as calculated using the *Black-Scholes Model.* As explained below, we believe these non-cash expenses are overstated and fundamentally open to question, but the disclosure to investors is already available. Starting in the first quarter of our fiscal 2003, we also disclose this pro forma information in our quarterly financial statements.

Some proponents of reform argue that stock option compensation may lead to earnings manipulation by encouraging company executives to focus on driving up stock prices in the short term. While there may be abuse in some cases due to insufficient corporate governance, we believe the vast majority of stock option plans are successfully motivating executives and employees to build long-term enterprise value. The use of incremental vesting schedules over a period of many years in a broad-based stock option program encourages long-range planning by executives and employees alike.

3. Valuation of ESOs

The Black-Scholes and binomial option pricing models were specifically developed and are widely used to accurately value publicly traded and listed options which are freely marketable and have no ownership restrictions. However, ESOs are a different type of equity option and are difficult to value accurately. There are no option pricing models or uniform, clear-cut, objective methods to measure the implicit employment, vesting and trading limitations and varying tax treatments of non-qualified and incentive stock options. As an example of trading limitations, employees can exercise options but they cannot sell or transfer options. When they exercise options, they lose the remaining time value of the options. If they could sell or transfer options, the options would retain their time value and would be more valuable. The ability to retain the remaining time value through a market sale or transfer is assumed in Black-Scholes, but it is not available to employees with stock options. Thus, trading limitations reduce the value of options. In another example of trading limitations, executives may be prevented from exercising stock options when the affiliate trading window is closed, thus their options are "locked up" and subject to more trading restrictions than the options of regular employees. These and the other types of restrictions significantly reduce the overall value of employee stock options. This is something of a quandary, because FASB Statement 123 requires the use of an option pricing model but none of the option pricing models take these restrictions into account.

The vast majority of public companies have chosen to use the Black-Scholes model to value ESOs, because it is the most widely used option pricing model. However, there is growing debate over the accuracy of Black-Scholes in the context of valuing ESOs. By omitting variables such as employment, vesting, illiquidity and taxation, we believe Black-Scholes *significantly misstates* the value of ESOs and distorts their financial impact on a company. Further, the Black-Scholes model relies to a large extent upon the volatility of a company's stock, or its Beta. The higher the Beta, the higher the cost of the option. Options issued one day may radically change in value if issued again the next day because of stock price swings, even though the value of employees' services should remain constant. Technology stocks are unfairly penalized because their stock prices are more volatile than other companies. All things being equal, a technology company would be required to report greater expenses than a non-tech company for the same employee's services.

Another problem is that there will often be a range of reasonable assumptions that companies can make in applying an option pricing model. Companies that are otherwise similar may use different assumptions to determine the method and number of days used to measure stock price volatility. They may use a different expected option life to reflect the likelihood that employees may exercise options

early. They may use different assumptions to estimate expected future option forfeitures. There are a wide variety of value outcomes depending on the assumptions made. The uniform comparability of financial statements will be diminished. The use of the Black-Scholes model to value options that differ so significantly from publicly-traded options can lead to results that cause investors to significantly misinterpret a company's true operating results.

Some companies are trying to improve formula assumptions, but their efforts tend to move reported financials further away from uniform accounting practices. Some companies have suggested arbitrarily discounting the value of ESOs because of their restrictive terms. An academic study by Steven Huddart of Stanford University estimated the restrictions imposed on 5-year ESOs may effectively reduce their value, as calculated using Black-Scholes, by an additional 16%. Several investment banks have indicated to us that their trading desks use 15% to 25% as an approximate discount for employee stock options. One company recently announced its own unique method of valuing ESOs. It will ask investment banks to provide firm quotations to buy or sell the company's stock under the same terms as its stock options. The average bid price will determine ESO values. Unfortunately, disclosures made by this company gave no indication of the valuation method to be used by its investment banks. It may be difficult for the banks to justify the basis of their bid prices and for the company to defend the objectivity of valuations provided by banks who may be seeking future business relationships with the company. If some companies effectively include discounts in their valuation assumptions and others do not, one must wonder how we will ever achieve accounting rules that provide comparative, uniform financial results.

Even worse than unreliable valuation methods is the potentially serious, negative financial impact on companies that expense stock options that are later not exercised by employees. Under FASB Statement 123, companies are required to amortize the cost of ESOs over the service or vesting period. Each year, the company must disclose an expense EVEN IF the options are never exercised and no costs are actually incurred. Many critics point out that some companies' earnings would be seriously impacted if they were required to expense stock options. But few talk about stock market declines that can lead to worthless, unexercised stock options, rendering historical FAS 123 expenses illusory and misleading in retrospect. And few users of financial statements seem to understand that employees may realize more or less in profits from ESOs than the expense reported under FAS 123. A requirement that companies expense stock options which may never provide benefit to employees will not help investors accurately understand and interpret corporate earnings and true per share valuations.

4. Implications of Expensing ESOs

There is a double counting of expenses when stock options are expensed on the income statement. Companies with positive earnings already report the dilutive effects of stock options in EPS using the treasury-stock method. If options are expensed, companies will record lower earnings that reduce the EPS numerator. The effects of stock options will thereby be counted twice, in both decreasing the numerator and increasing the denominator. The argument for this seemingly duplicative impact on EPS is that there are really two elements to an employee stock option: compensation (recognized as an expense) and potential equity dilution (recognized in the number of shares). We believe this approach seriously exaggerates the financial impact of stock options. The likely effect would be to reduce reported earnings, lower stock valuations and shake investor confidence during a time of globally weakened economic and market conditions.

There is likely to be a very negative effect on employee motivation and morale at many companies (particularly in the high tech industry) if options are expensed, and as a result, companies reduce or discontinue stock-based incentive programs. Employers could be forced to reduce or possibly

eliminate option grants to employees in order to maintain growth in reported earnings. This is of particular concern to companies such as QUALCOMM with 100% of regular employees eligible to receive stock options as part of an incentive-based approach to compensation. Employees who are denied the opportunity to realize potentially significant financial gains from ownership participation will certainly have less incentive to achieve corresponding value for the company's shareholders. It will become more difficult for companies such as QUALCOMM to maintain broad-based stock option plans and effective recruitment programs without incurring disproportionately large costs in doing so. Incentive-based stock compensation will tend to become more concentrated in the upper ranks, which is exactly the opposite of what many critics would like to see.

The cost to U.S. productivity if stock options were eliminated entirely could be staggering. According to a recent Employment Policy Foundation report, if stock option plans were eliminated entirely, it could result in up to $2.3 trillion in lost output over the next decade, and employees receiving stock options, on average, could lose up to $77,300 of income in the next 10 years. Federal, state and local governments could lose up to $566 billion in tax revenue during the same time period.

Some stock analysts and investment banks have already suggested a counter-move by public companies that we believe would add to confusion in financial reporting. If options are expensed, they would encourage many companies to continue to issue "pro forma" financial results by removing option expenses from GAAP results. They believe this move would be helpful to investors because of the non-cash nature of stock option expenses, the lack of accurate valuation methods, and the questionable validity of the expense itself. We believe this would be a move in the wrong direction, because it would not achieve the goals of uniform and comprehensible financial reporting.

A relatively small percentage of public companies in the U.S. have voluntarily decided to expense the fair value of stock options under FASB Statement 123. However, many of these companies have limited the grant of stock options to only high-level executives, and the reported expenses of their options programs are not material to their overall financial results. To some investors, this may make it seem that corporate governance is an even bigger problem because other companies don't join them. We believe it is unfortunate that these few companies decided to make an accounting policy change that has little effect on them but could have staggering effects on many other companies that are contributing to the U.S. economic recovery.

Finally, we believe expensing of stock options would further divert the attention of investors and analysts away from the single ultimate value of an operating company – its cash flow. Investors lose perspective on the real value of a company when long-term GAAP financial results bear little resemblance to cash flow. The apparent accounting deceptions by companies such as Enron and Worldcom might have been avoided if there had been more focus on the monitoring of cash earnings and cash flows in public companies. We believe that accounting methods have drifted too far from cash earnings and cash flow, and many non-cash expenses such as goodwill accounting and FAS 133 (marked-to-market derivative accounting) seem to completely befuddle investors. These charges are often viewed as not related to a company's operations, and as such, companies are motivated to report *pro forma* results, in addition to GAAP results, in order to give investors a better view of operating results. The SEC has even acknowledged the usefulness of pro forma reporting if done in a uniform and consistent basis. However, negative media portrayals and general confusion about pro forma reporting have served to weaken investor confidence in overall financial reporting. We urge a return to performance measurements that emphasize cash earnings and cash flows from operations over the long-term.

5. ***International Issues Related to ESOs***

There are important discrepancies in stock option accounting between U.S. GAAP and the accounting guidelines issued by the International Accounting Standards Board ("IASB"). As investors consider investing in foreign stocks, it becomes important for them to rely upon uniform financial accounting practices across international borders. Unfortunately, there are a number of differences and it is likely to remain that way. One risk is that the IASB will adopt ESO expensing guidelines, and this will add pressure for the FASB to conform in order to encourage uniform cross-border accounting procedures. Harmonization should not govern the determination of accounting policies. We believe it is imperative that accounting policy be determined after a careful review of the underlying principles and effects of such policies on the companies that will adopt them, on specific industries, and on the economy as a whole.

One company, Flextronics International, Ltd., has pointed out the competitive disadvantages for technology companies in hiring workers in foreign markets because of less stringent accounting requirements related to stock options:

> *"Last year, four of the top ten growth companies in technology in the world were Taiwanese companies. In Taiwan, accounting practices allow companies to give actual stock, not stock options, to employees without recording an expense. This is far more of a problem than the giving of stock options, because the employees get those shares regardless of what happens to the stock price. So, it is virtually impossible for any company that does not have this access to this accounting treatment, to recruit technical talent in this very important region of the world, including in China where most Taiwanese companies work. If we further reduce the use of options for U.S. publicly traded companies, this competitive imbalance will worsen."*

This international problem could become more pervasive if U.S. companies become handicapped in their ability to issue stock options in order to attract talented new employees. Foreign competitors, with less stringent accounting requirements, could use the opportunity to issue stock options of their own and gain competitive labor advantages. They could duplicate the kind of success that QUALCOMM and other U.S. companies have realized by aligning employees' and shareholders' long-term interests.

CONCLUSIONS

Stockholders bear the costs of stock options and they participate in the upside potential created by stock options. These costs are already disclosed to investors in diluted EPS. Broad-based employee stock option plans have been shown to increase productivity. No cash outflows are incurred by the company upon grant, vesting or exercise of options. No costs are incurred by stockholders if options are never exercised.

RECOMMENDATIONS

- We do not believe expensing options is a good solution to the problems of corporate mismanagement and executive pay abuse. Focus is needed on improving executive compensation programs. We recommend the following guidelines for stock options granted to the top 5 officers of every public company:

- Full Board approval. In many companies, a sub-committee of the Board of Directors is authorized to approve grants for corporate officers. By mandating that the full Board, excluding employee Directors, must approve option grants to the top 5 corporate officers, more discussion and perspectives can be introduced into the option granting process.

- Uniform vesting schedules. By requiring the vesting schedules for the top 5 corporate officers to be the same as that of other employees, there would be no special treatment for executive officers.

- Maximum percentage. A maximum threshold could be mandated regarding the quantity of options granted to the top 5 officers each year as compared to the quantity of options granted to all employees. By mandating a maximum percentage, such as 5%, the number of options granted to corporate officers could be controlled.

- We advocate a renewed focus on valuing companies based on net long-term cash flows. We do not include EBITDA as cash flow, because we believe it is important for investors to consider a company's net cash flow after funding its interest expense and tax obligations.

- We propose changes in income tax policy to encourage employees to buy and hold stock for the long term. Current tax policy encourages companies to issue non-qualified stock options to employees because the company receives a tax deduction for the spread between market price and exercise price. The employee is subject to ordinary income tax upon option exercise regardless of whether they sell the stock. We recommend the employee receive the same treatment for non-qualified stock options as they currently receive with regard to incentive stock options (ISOs). Employees exercising ISOs are not taxed until they actually sell stock and realize a capital gain. By giving this treatment to non-qualified options, employees would have greater incentives to buy and hold the company's stock for long-term growth.

- We believe it is important for the leading companies in major industries to coordinate and put forth a set of constructive recommendations to improve financial reporting and corporate governance. The decisions by a relatively small number of companies (most of which have used options sparingly) to voluntarily expense options creates confusion for investors about accepted accounting practices. There is a need for all responsible parties to carefully consider the issues before endorsing a uniform change in U.S. accounting guidelines.

- We support providing shareholders with comprehensive information about a company's stock option incentive programs when new terms of a stock option plan must be authorized by shareholders. At the time of a shareholder vote, shareholders should be provided with detailed information about the ways in which a company has utilized stock options to improve operating performance. Shareholders can be better informed and vote for plans they believe are in their best interests.

- We support quarterly 10-Q disclosure of the FASB Statement 123 footnote with pro forma information; however, we suggest the information be amended to indicate the effect of stock option "expenses" that no longer exist because they were underwater, cancelled, revoked, forfeited, or expired worthless. More frequent disclosures with historical perspective can help investors to improve their understanding of these issues.

- We support lobbying for consistent international accounting standards that are based on sound accounting principles after due consideration by all responsible parties.

Thank you for the opportunity to submit our points of view on this important topic.

Sincerely,

Anthony S. Thornley
President and Chief Operating Officer
QUALCOMM Incorporated