March 13, 2012

Submitted via email to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference 2011-230

Dear FASB:

QUALCOMM Incorporated (Qualcomm) is a large accelerated filer with revenues generated from a wide range of sources, including the sale of equipment and services and the granting of licenses to portions of our intellectual property portfolio. Our revenues for the fiscal year ended September 25, 2011 were approximately $15 billion. We respectfully submit this comment letter to the Exposure Draft on the Proposed Accounting Standards Update (Revised) to Revenue Recognition (Topic 605), Revenue from Contracts with Customers (the "Revised Update").

Qualcomm commends the FASB and IASB for jointly developing the Revised Update and is supportive of their convergence efforts. We agree with the need for a single set of accounting guidance that addresses revenue recognition because the current revenue recognition guidance under U.S. GAAP often results in inconsistent treatment for economically similar transactions. However, in our review of the Revised Update, we noted that in a number of areas the application of the proposed revenue recognition model will require further clarification, may not be practical or operational, or may produce results that seem to conflict with the stated objectives.

We have attached our comments with respect to certain elements of the Revised Update, followed by our responses to certain questions for which the Boards have requested feedback, in Exhibit 1.

We appreciate the opportunity to comment on the Revised Update. Thank you for your consideration.

Sincerely,

[Signature]
William E. Keel
Executive Vice President and Chief Financial Officer
QUALCOMM Incorporated
Exhibit 1

Overall Concerns With Respect To Revenue Recognition for Our Licensing Business

Qualcomm licenses or otherwise provides rights to use portions of its intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. Qualcomm licensees typically pay a fixed license fee in one or more installments, as well as ongoing royalties based on their sales of products incorporating or using Qualcomm’s licensed intellectual property. Qualcomm recognizes license fees over the estimated period of benefit of the license to the licensee. Qualcomm recognizes royalty revenues when royalties are reported by licensees, which is typically in the quarter following the quarter in which the licensees’ sales occur.

It is unclear how many aspects of the Revised Update will be applied to Qualcomm’s licensing arrangements.

Identification of Performance Obligations

Although there is no specific authoritative guidance on revenue recognition for intellectual property (other than software or motion pictures) under current U.S. GAAP, two accounting models have evolved in practice: the sale model and the lease model. The lease model (which Qualcomm applies in certain circumstances) analogizes the licensing of intellectual property to leasing as the benefit of the license is derived or delivered over the term of the license. Under this model, revenue is recognized on a systematic basis over the term of the license agreement. Certain of Qualcomm’s intellectual property license arrangements provide the licensee with rights to existing patents as well as to patents or patent applications that may be filed, acquired or licensed by Qualcomm in the future. The licensed portfolio may also contain patents that will expire at some point during the term of the license. Because these licenses convey rights to use patents and patent applications that are owned (or that Qualcomm has the right to license) throughout the term of the agreement, the conveyance of such rights is currently considered to be a single continuing performance obligation that is expected to be delivered to the licensee over the period of benefit (i.e., over the term of the agreement for term licenses and over the estimated period of benefit for perpetual licenses).

Accordingly, Qualcomm applies the lease model, and consideration received up-front is recognized as revenue over the period of benefit.

It is unclear how the criteria for determining whether a good or service is distinct, and therefore accounted for as a separate performance obligation, will be applied to these license arrangements. While we believe that each of the obligations to provide rights to (1) existing patents and (2) future patents on a when-and-if-available basis (“future patents”) may meet the definition of a performance obligation pursuant to paragraph 24 of the Revised Update, application of the criteria in paragraph 28b of the Revised Update could result in the determination that these obligations are distinct. We believe the Boards should reconsider portions of the guidance in paragraph 28b. In the case of our illustrative license with two potential performance obligations, if the licensee can benefit from the future patents when combined with resources readily available to the licensee (i.e., the rights to intellectual property already received under the license), then the two performance obligations may be distinct under this guidance. However, using this logic (and the guidance in the last sentence of paragraph 28b), the elements delivered later will by definition always be distinct in any multiple-element arrangement so long as they can be used with the first delivered item. We do not understand how application of this criterion makes the element that is delivered later distinct from the first delivered item.
If these arrangements were deemed to include two distinct performance obligations that are satisfied at different points in time, application of the Revised Update as currently written will result in numerous operational difficulties as discussed in more detail below. As a result, we believe that the final standard should allow for the leasing model as described above (or a model that substantively results in one performance obligation satisfied over time) to continue to be applied to licenses of intellectual property under which revenue would be recognized over the period that the licensee has the rights to use and benefit from an active intellectual property portfolio.

Determination of Transaction Price - Variable Consideration

The Revised Update requires management to determine the total transaction price, including an estimate of variable consideration received from a customer and consideration payable to a customer, at the outset of the contract and on an ongoing basis for purposes of allocating the transaction price to separate performance obligations in a contract based on the relative stand-alone selling prices of the goods or services.

Treatment of variable consideration in the proposed revenue model would be a significant challenge for companies like Qualcomm that derive a significant portion of their revenues from transaction-based fees (sales-based royalties in Qualcomm’s case). Qualcomm’s licensing arrangements may be long-term in nature, spanning many years or into perpetuity. Estimating transaction-based fees for multi-year or perpetual contracts in a high-volume environment is not feasible. Further, transaction-based licensing revenues earned by Qualcomm are ultimately contingent upon the actions taken by the licensee or end customers and upon economic factors and/or government regulation that drive sales prices of licensees’ products, including the cost of labor and materials, disposable income of end customers, foreign currency exchange rates, licensee market shares, wireless spectrum availability and the timing of technology transitions, among others, which are outside of our control and unrelated to our performance. For these reasons, we do not agree that an entity should determine the transaction price and allocate consideration on the basis of an estimated transaction price that includes highly subjective variable consideration.

While not explicitly stated, it appears that there is a presumption in the Revised Update that an entity will always have the ability to estimate anticipated amounts of variable consideration for purposes of determining the transaction price. On the contrary, we believe there should be a presumption that an entity does not have the ability to estimate such amounts. We appreciate the Boards’ response to respondents that objected to the recognition of revenue on the basis of an estimated transaction price by clarifying that the transaction price allocated to a satisfied performance obligation should be recognized as revenue only when the entity is reasonably assured to be entitled to that amount. However, this proposed constraint does not alleviate the burdens and concerns with respect to estimating the transaction price as noted above.

Treatment of consideration payable to customers in the proposed revenue model may also be a significant challenge for companies like Qualcomm that provide sales incentives to customers that are accounted for as reductions in revenues. Although a vendor should recognize a liability for those sales incentives based on the estimated amount of refunds or rebates that will be claimed by customers, the guidance under current U.S. GAAP allows vendors to accrue the maximum potential amount of the refund or rebate if such amount cannot be reasonably and reliably estimated. Factors similar to those that impact a vendor’s ability to estimate variable consideration noted above also impact a vendor’s ability to estimate the liabilities associated with certain customer incentive arrangements. If the Revised Update does not allow companies to
continue to accrue the maximum potential amount of sales incentives, we believe the Boards need to provide additional guidance for reducing transaction price associated with consideration payable to customers that cannot be estimated. In such cases, we suggest that the guidance should clarify that vendors can continue to reduce the transaction price by the maximum potential amount of sales incentives.

In addition, the requirement to revise estimates of transaction price at each reporting date will result in significant administrative burden on the preparers of financial statements and result in incremental costs that, we believe, significantly outweigh the benefits to financial statement users. Furthermore, the significant incremental effort that will be required to audit these estimates and to evaluate and test management’s process, controls and conclusions related to the expanded requirements will undoubtedly increase many companies’ audit fees.

Allocation of Transaction Price

The Revised Update requires the transaction price to be allocated to separate performance obligations in a contract based on the relative stand-alone selling prices (or estimated selling prices) of the goods or services. The Revised Update allows the use of a residual approach to calculate the stand-alone selling price when there is significant variability or uncertainty in one performance obligation. If Qualcomm’s license arrangements that provide rights to existing and future patents are deemed to have multiple distinct performance obligations, we are concerned that we may not be able to allocate the transaction price to the separate performance obligations. Although the Revised Update allows variable consideration to be allocated to a single performance obligation in certain circumstances, it would still require any up-front or fixed consideration to be allocated among all distinct performance obligations. In order to allocate such amounts on a relative selling price basis, Qualcomm must first have (or estimate) a standalone selling price for each performance obligation. However, Qualcomm does not have standalone selling prices for such separate performance obligations because we do not separately license existing or future patents. Furthermore, we may not have the ability to estimate standalone selling prices because such prices would be highly variable and uncertain. Qualcomm would also not be able to employ a residual technique because rights to existing and future patents are not licensed separately (neither performance obligation is ever sold or licensed separately). We believe the Boards need to provide additional guidance for performance obligations for which standalone selling prices cannot be estimated. We suggest that such guidance should allow such intellectual property arrangements to be accounted for as one performance obligation.

Under the current leasing model, consideration received in the form of royalties is recognized as revenue as the royalty is earned and the contingency is resolved. It is our understanding that the proposed model would require that a portion of the amount of consideration (including consideration from royalties) be allocated (if there are two distinct performance obligations) to the performance obligation associated with future patents. The amount allocated to future patents would be recognized as the performance obligation is satisfied over time. This could result in the deferral of amounts earned from sales-based royalties in certain circumstances. If our understanding is correct, such deferral will result in a significant change in the pattern of revenue recognition as well as significant incremental administrative efforts due to the lack of systematic processes to account for the many layers of revenue deferrals created from a single performance obligation in an efficient manner. Furthermore, the proposed model will not be feasible for those performance obligations, such as certain of Qualcomm’s intellectual property licenses that are satisfied into perpetuity. We believe the Boards need to provide additional guidance for recognition of revenue associated with performance obligations with sales-based royalties that are satisfied over time, especially those that continue into perpetuity. We suggest that the final standard should allow for a model similar to the leasing model as
described above to continue to be applied to licenses of intellectual property under which revenue would be recognized over the period that the licensee has the rights to use and benefit from an active intellectual property portfolio.

**Constraints on the Cumulative Amount of Revenue Recognized**

We agree that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognizes to date should not exceed the amount to which the entity is reasonably assured to be entitled. We also agree that if an entity licenses intellectual property to a customer and the consideration it receives is variable based on the customer’s subsequent sales of a good or service that uses the intellectual property, the entity is not reasonably assured of the variable amounts until the uncertainty is resolved. As noted above, Qualcomm earns royalties on licensed products sold by its licensees at the time that the licensees’ sales occur. Qualcomm’s licensees, however, do not report or pay royalties for sales in any given quarter until after the conclusion of that quarter. Accordingly, Qualcomm recognizes royalty revenues based on royalties reported by licensees during the quarter (i.e., on an “as-reported” basis). Under this method, royalties for sales in any given quarter are recognized in the quarter in which the royalty report is received, which is typically the quarter following the quarter in which the customer’s sale occurred. This approach was implemented in our fiscal 2004 as escalating business trends diminished our ability to reliably estimate royalty revenues from certain licensees.

We believe that licensees’ sales that are subject to royalties are not reasonably assured until such royalties are reported by the licensee. We believe the Boards need to provide additional guidance to address the timing of revenue recognition when an entity relies on reports received from its licensees for purposes of recognizing contingent consideration, and that such guidance should allow for an “as-reported” method. Alternatively, we suggest the Boards revise the guidance in paragraph 85 of the Revised Update as follows: “...until the uncertainty is resolved (that is, when the customer’s subsequent sales occur, at the earliest).”

**Our responses to Certain Questions for Respondents in the Revised Update**

**Question 5:** The Boards propose to amend Topic 270 and IAS 34 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial statements. The disclosures that would be required (if material) are:

1. The disaggregation of revenue (paragraphs 114–116)
2. A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)
3. An analysis of the entity’s remaining performance obligations (paragraphs 119–121)
4. Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
5. A tabular reconciliation of the movements of the assets recognized from the costs to obtain or fulfill a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial statements? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance
those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial statements.

No, we do not agree with these proposals. We oppose any requirement to provide tabular reconciliations of contract assets and liabilities as described in paragraphs 2, 4 and 5 above due to a number of factors, including but not limited to (a) a substantial portion of the information provided will not be useful because of the preponderance of contracts with a short duration (i.e., there will be little or no correlation between the beginning and ending contract balances and total activity (e.g., total revenue recognized) during the reporting period); (b) the lack of systematic processes to obtain the underlying data in an efficient manner; and (c) the high cost of preparing and auditing the reconciliations because entities would be required to measure all unperformed contracts.

While the remaining proposed disclosure requirements (i.e., those that do not require tabular reconciliations) may provide some help to users of financial statements in understanding the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, they will significantly increase the volume of required disclosures, resulting in significant administrative burden on the preparers of financial statements and significant costs to prepare and audit such information, that we believe will outweigh the benefits to financial statement users. We believe the concerns of financial statement users regarding the timing of recognition of revenue previously deferred could be addressed through disclosure of the amount of deferred revenues and the expected timing of revenues to be recognized beyond one year, similar to the proposed disclosure requirement surrounding the amount and expected timing of an entity’s remaining performance obligations.

We also note that the requirement to provide tabular reconciliations appears similar to certain elements in the Boards’ ongoing Financial Statement Presentation project, which may require reconciliations for all significant contracts. We encourage the Boards to consider whether separate reconciliation requirements are necessary for revenues when they review feedback on the Financial Statement Presentation project.

Finally, we do not believe these disclosures should be required in an entity’s interim financial statements except in the interim reports filed prior to the first annual report that reflects adoption of the proposed accounting standard. Adequacy of disclosure in the interim financial statements should be determined in the context that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. If the trends surrounding the amount, timing and uncertainty of revenue and cash flows are consistent with those indicated in the disclosures provided in the audited financial statements, such disclosures will be substantially duplicative of those in the audited financial statements. We believe that, consistent with current practice, only events which occurred subsequent to the end of the most recent fiscal year and have a material impact should be disclosed in the interim financial statements.