

QUALCOMM INC/DE
Form DEFA14A
February 21, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☒ Definitive Additional Materials
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QUALCOMM INCORPORATED
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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February 21, 2012

Re: Qualcomm's 2012 Annual Meeting of Stockholders March 6, 2012
Proposal 3, Advisory Vote on Executive Compensation (Say on Pay)

Dear Stockholder:

By now you should have received Qualcomm's Notice of the 2012 Annual Meeting and Proxy Statement. You can also view our Proxy Statement at www.qualcomm.com/connect/investor-relations.

We are writing to ask for your support at the Annual Meeting by voting in accordance with the recommendations of our Board of Directors on all proposals. **In particular, we want to request your support on Proposal 3, Advisory Vote on Executive Compensation (Say on Pay).**

Institutional Shareholder Services (ISS) has recommended a vote against this proposal. We strongly disagree with its recommendation. ISS based its recommendation largely on the size of our CEO's equity awards measured against a group of comparator companies determined by ISS. We take issue with the peer group selected by ISS to benchmark our CEO compensation and believe that it fails to recognize that Qualcomm is one of the largest companies in the United States by market capitalization value, and fails to recognize our unique business structure. We understand that ISS policy requires that it takes a standardized approach that identifies comparator companies based on revenues. In contrast, we determined, with input from an independent consultant, our peer group primarily based on market capitalization. This difference in comparator groups is the primary source of the difference between the recommendations of our Board and ISS on the Say on Pay proposal. If ISS had used Qualcomm's compensation peer group, rather than its policy-generated comparators, we believe we would have passed ISS' CEO compensation tests.

Our Board believes that market capitalization, rather than revenues, is appropriate as the primary criterion for selecting companies for executive compensation decision-making for the following reasons (which are supported by the tables included in this letter):

Market capitalization, a key component of which is stock price, is the key driver of equity compensation grant value, and equity compensation grant value is the single largest component of CEO compensation among large market capitalization technology companies.

Market capitalization is directly correlated to shareholder benefit. Qualcomm's market capitalization is supported more so by our levels of net income and net income margin than revenues which in turn reinforces the appropriateness of this peer group selection criterion (See tables below: Qualcomm Size Ranking and Qualcomm Size versus FY11 Compensation Peer Group).

Market capitalization as the primary selection criterion is more appropriate than revenues. For example, assume companies A and B have identical revenues of \$15 billion and both have 1 billion shares outstanding, but company A's market capitalization is \$10 billion (i.e., a \$10 per share stock price) as compared to company B's \$100 billion market capitalization (i.e., a \$100 per share stock price). It is logical that company B would provide more annual equity grant value to its CEO. However, the ISS analysis suggests that they should be the same because both companies have the same revenues.

A significant portion of Qualcomm's business is technology licensing, which is a high margin business, and as such, Qualcomm typically has higher market capitalization and profit than companies with similar revenues. Ironically, this places Qualcomm at a disadvantage under the ISS approach.

Qualcomm is among the largest and most profitable companies in the S&P 500 and is significantly larger than most companies in the ISS comparator group.

Size Measure ²	Qualcomm Size Ranking ¹		
	S&P	Internal	ISS
	500	Compensation	Comparator
	Index	Peer Group ³	Group
Market Capitalization (\$ millions)	27 of 500	11 of 28	2 of 15
Net Income (\$ millions)	42 of 500	11 of 28	2 of 15
Net Income Margin (%)	18 of 500	3 of 28	4 of 15
Revenues (\$ millions)	158 of 500	21 of 28	5 of 15

¹ Based on data from the Standard & Poor's Research Insight database (effective 1/31/12), which may differ from the financial information as filed with the Securities and Exchange Commission.

² Market capitalization is measured as of 9/30/11. Net income, net income margin, and revenues reflect the most recent reported four quarters (as of 1/31/12).

³ Excludes Motorola, which was subsequently split into two stand-alone public companies. With respect to ISS analysis, we note that:

We have historically been sensitive to ISS guidelines and compensation best practices, including pay for performance tests, in implementing our executive compensation programs. We note that we made the relevant compensation decisions in late 2010, and we believe that we would have passed ISS relevant tests that were in effect at that time.

Among ISS 14-company, revenues-focused comparator group Qualcomm is one of the largest companies on all key size measures. Because ISS uses mostly smaller companies in its analysis, it is no surprise that our CEO's compensation was viewed as being relatively higher.

Among the 27 peer companies (excluding Motorola due to its recent split into two companies), which we utilize for executive compensation decisions (as set forth in our Proxy Statement), Qualcomm was above the median based on the measures reflected in the table above, except for revenues. Qualcomm did not “stack the deck” with larger companies as asserted by ISS.

Applying the ISS CEO pay-for-performance test using Qualcomm’s 27 peer companies, we believe we would pass with “Low Concern” on all three quantitative tests (Relative Degree of Alignment would equal -9%, Multiple of Median would equal 1.32x, and Pay vs. TSR Alignment would equal 1%).

When determining compensation for our Named Executive Officers (NEOs), Qualcomm does not benchmark at the 75th percentile as suggested by ISS. We consider competitive compensation practices by other companies as reference points (i.e., the statistical median and the 75th percentile) that the Compensation Committee may use for comparative purposes. We do not target specific benchmark percentiles.

ISS’s shareholder value transfer (SVT) analytics for evaluating stock plan authorization (where stock plan values are measured as a percent of market capitalization) support the importance of market capitalization. We would also like to reiterate, from our fiscal 2011 earnings release and Proxy Statement, our strong performance in fiscal 2011 and our extensive use of performance-based compensation and executive compensation best practice policies.

We delivered record revenues and earnings.

Our fiscal 2011 results included year-over-year increases in revenues (36%), net income (31%), diluted earnings per share (29%) and operating cash flow (20%).

In fiscal 2011, we returned \$1.49 billion of capital to stockholders, including \$1.35 billion, or \$0.81 per share, in cash dividends paid, and \$142 million to repurchase 2.9 million shares of our common stock.

We make extensive use of performance-based compensation.

In fiscal 2011, a majority of the long-term incentive awards granted to our CEO, the other NEOs and other executive officers were in the form of performance-based awards. The mix of PSUs and RSUs rewards relative and absolute stock price appreciation, thereby aligning the interests of our stockholders and executive officers.

On average, 77% of our NEOs’ fiscal 2011 annual target compensation was attributable to the grant date fair value of long-term incentive equity awards, and 91% of their fiscal 2011 annual target compensation was variable in the form of annual cash incentives and long-term incentive equity awards.

We have implemented a comprehensive program of compensation best practices.

We employ our NEOs at will, without severance agreements or employment contracts. Thus, our CEO and other NEOs do not have guaranteed arrangements for cash compensation or severance upon a change-in-control or excise tax gross-up for change-in-control payments.

We have stock ownership guidelines covering all NEOs, and increased the ownership guideline for the CEO from five times to six times annual base salary.

We do not make tax gross-up payments on compensation or benefits, except where directly business-related and provided in a policy applicable to all eligible employees, such as relocation.

We adopted a cash incentive compensation repayment (claw back) policy effective January 1, 2009, and we intend to amend the policy to comply with the additional requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) after the SEC adopts new regulations implementing those requirements.

Our insider trading policy for executive officers and non-employee directors prohibits transactions involving short-swing profits, short sales and derivatives, including put and call options and forward sales contracts.
The tables at the end of this letter provide additional detail to support our conclusions.

We invite you to read the Proxy Statement for more information regarding the reasons the Board is recommending a vote FOR Proposal 3, Advisory Vote on Executive Compensation.

We appreciate your time and consideration on these matters and ask for your support of the Board's recommendation.

Qualcomm scores Low Concern under ISS CEO pay-for-performance tests when evaluated against its FY11 compensation peer group, which were the companies the Compensation Committee referenced when making FY11 pay decisions.

Qualcomm is above the median of its FY11 compensation peers when measured by market capitalization, net income, and net income margin, while its FY11 revenues were below the median of the peer group.

Qualcomm is significantly larger than the comparator companies used by ISS in their evaluation of our CEO's FY11 compensation.