Mr. Jonathan G. Katz
Secretary, U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: **Comments for the SEC Advisory Committee on Smaller Public Companies**
File No. 265-23

Dear Mr. Katz and Advisory Committee Members:

I am writing to suggest that the Advisory Committee on Smaller Public Companies place the issue of accounting for employee stock options on its upcoming agenda.

FASB's Rule 123R that requires companies to expense employee stock options, I believe, will particularly hurt smaller public companies for at least three reasons:

1) They will be forced to report earnings that are both invalid and suppressed.

   As an example, a company could have a share price increase of 3%, or $ 0.15 per share, earnings per share of $ 0.20 and an implied PE ratio of 25. However, with an equity-based compensation expense of 5% of its market capitalization, a very reasonable assumption, the company would incur an expense of $ 0.25 per share. The resultant reported loss of $ 0.05 from equity-based expensing belies the fact that the shareholders are clearly gaining from both the 3% increased share price and the $ 0.20 per share earnings that could be paid as dividends.

   When smaller public companies report invalid earnings that are biased downwards, their ability to raise capital is hindered, their existence threatened, and their valuable role in our economy curtailed.

2) When smaller public companies cannot afford the effects of reporting invalid earnings that are biased downwards as described above, they will reduce option use, which in turns hinders their recruiting and retention capabilities, which in turn compromises their viability.

3) Unlike large public companies, smaller public companies cannot absorb invalid option expensing, cannot tactically select the most favorable option valuation, nor can they forgo offering options all together.

   So, for instance, IBM can absorb invalid expensing since it has a sizable core business. Cisco can create a special market to determine option valuation. Microsoft can avoid options all together.

   The implementation of FASB's Rule 123R will result in a relative disadvantage for smaller public companies who cannot afford the coping strategies of large public companies.

I suggest that the SEC Advisory Committee on Smaller Public Companies seek to postpone the effective date of FASB Rule 123R for smaller public companies. This will prevent the immediate potential harm to smaller public companies as outlined above.

I also suggest that SEC Advisory Committee on Smaller Public Companies seek to identify appropriate methods to account for employee stock options. The Chairman of the SEC, William Donaldson, recently told the Senate Banking Committee that many people were attempting to determine how best to account for employee stock options. The Committee should consider these alternatives. Please note that FASB Rule 123R rigidly prescribes only certain types of methods to account for stock options, and thus precludes other methods.

Respectfully Submitted,

Joel Jameson
President

Silicon Economics, Inc.
19925 Stevens Creek Blvd.
Cupertino, CA 95014-2358
jjameson@SiliconEconomics.com
(408) 725-7511