

Thursday, June 24th, 2004

Letter of Comment No: 5297
File Reference: 1102-100

Dear FASB Director and/or Representative,

I am writing this letter in strong opposition to the March 31, 2004 stock option expensing proposal currently under consideration by the FASB. I am the President and CEO of Novalux, Incorporated a private semiconductor laser company located in Sunnyvale, California. My company has employed more than 50 U.S. employees since its inception and every employee has been and/or is an equity owner in the business as a result of stock option grants. Consistent with the competitive trends for both small and large high-technology companies within Silicon Valley, stock options represent a significant incentive to promote employee entrepreneurial values. These values manifest themselves in providing employees the opportunity to maximize their added-value contributions to our products and services for target customers as well as their optimize their personal career growth. As a result of these factors and our company's momentum over the last year in bringing an innovative new laser technology to market, our company's Board Of Directors fully supports the stock option program distribution to all employees within the company.

There has been substantial debate over the issue of expensing stock options, but the focus on large private companies has overshadowed the potential detrimental impact that the proposal would have on small companies like mine. In particular there are [3] issues that are particularly pertinent to my business and must be addressed before the approval of any legislation

- 1) Masking of Operating Results: We do not report our results to a large base of stockholders. We do, however, have to present our financial statements to partners, suppliers, and customers. Since we have only year of operating history and minimal cash on the balance sheet, many of these partners rely on our income statement to determine our viability risk. Introducing stock option expense to our income statement will not only confuse our partners, but it will mask the true health of our business. Our success relies on a small number of supplier and customer relationships and therefore we cannot afford to lose one of these relationships because of income statement changes that are simply the result of granting options to our employees.
- 2) Stock Options are Essential for Startups: It is not easy to attract high quality employees to an early stage company that, by nature, has very little employment stability. In order to attract this talent, we must make our employees equity owners and give them a vested interest in the outcome of the company. Today we have only 49 employees, and in many cases our employees are multi-disciplined from their previous business and technology backgrounds. Therefore in a small company, every employee can and does make a meaningful impact on the outcome of our company, and we must reward them for doing so. Expensing of stock options would make it difficult to implement the broad-based stock option plans that have driven our company to-date, and almost every other successful

early stage company that I am aware of within Silicon Valley.

- 3) Cost of Implementation: We have a broad-based stock option plan that provides equity ownership to every employee in the company. Currently, I have a consulting CFO, a full-time Controller and one other person on the finance staff who are responsible for all aspects of the financial health and monitoring of the company, including the administration of our stock option program. While they are able to handle all of their responsibilities today, the complexity of implementing the FASB proposal will overwhelm them, and would likely force us to hire outside auditors or consultants to administer our stock option plan. Based on our small size, this incremental expense will have a meaningful impact on our profitability and our ability to hire employees in revenue-generating areas of our business. It would be a much better use of working capital for my company at this critical point of accelerating business growth to deploy such incremental expenses/investments into other functional areas of the company to maximize growth and shareholder Return On Investment.

As a CEO, board member, and employee, I urge you to carefully reconsider your proposal and to continue to investigate these issues that I have outlined in this letter. Rushing to implement this proposal without working through these issues could have a detrimental affect on my company and the hundreds of other innovative, high-technology companies in the U.S. that rely on stock options as a means to promote and sustain growth in a difficult economic environment.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Cannon". The signature is fluid and cursive, with a large initial "J" and "C".

Jeffrey L. Cannon
President and CEO
Novalux, Incorporated
1220 Midas Way
Sunnyvale, California 94085

Cc: FASB File Reference No. 1102-100