

MARK -

Generally bad
idea.

What do you think?
NQO's are
taxed as
ord. income at
time of exercise &
cap gain on
subsequent ↑.

ISOs provide no
deduction to firm,
but cap gain
treatment to
worker

TDM
Firms get deduction
= 50% income inclusion



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May 21, 1997

Mr. Tom Friedman
White House Office of Domestic Policy
1600 Pennsylvania Avenue
Washington, DC 20001

RE: Proposal for fairness in stock options

Dear Mr. Friedman:

I read with great interest an article in the Wall Street Journal about stock option gains causing an increase in individual taxes, while a cut in corporate taxes. Since I have always been a big supporter of the President, and call myself fortunate for having visited the White House during the last two years (once to see George Stephanopolous), I thought I'd pass along a tax idea that may already be on the plate, but that could probably be tremendously helpful in swaying upper middle class taxpayers.

Currently, if you have options to buy your company stock, and they are often given to workers in California, they are either "nonqualified" or "incentive". If you exercise nonqualified options and then immediately sell them, you are taxed at ordinary income rates. If you have \$150,000 in income, and then add \$ 100,000 in gains, you actually pay nearly 50% in taxes-because of Medicare taxes and the loss of personal exemptions and some of your Schedule A deductions. (The Company deducts the amount as compensation, and gets a 34% benefit.)

There are a tremendous number of people who have been granted, and then exercised, those options during these past two years. Many of these people do not consider themselves rich, just fortunate to have a one or two time gain. I think you could deliver a super proposal on this to strengthen families, and incentivize corporations as follows:

- 1 - Allow these gains to be taxed at the capital gain rate - 28% total for the individual
- 2 - Allow parents to reduce the gain by:
 - putting up to \$ 5,000 into their IRA
 - putting up to \$ 10,000 into the child's college fund
 - putting up to \$ 5,000 into a 401(k) or other plan
- 3 - To reduce the tax loss to individuals, reduce the tax benefit to corporations to the capital gain/loss rate as well-no more than 28% deduction.

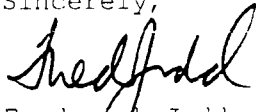
The benefits of this proposal should be self-evident. As a corporate officer, I know the deduction is a "gift". As one who just paid 53% of

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the gain I realized, I know how much I would have loved your proposal, and how so many others would latch onto it as well as a family friendly proposal.

If you have any questions about this, I hope you'll call at (800) 800-8600 X 257. Thanks for doing the important work of the President. I wish you a lot of good luck.

Sincerely,

A handwritten signature in cursive script, appearing to read "Fred Judd".

Frederick Judd
Vice President Finance and General Counsel