


REGULATORY CIRCULAR NO. 96-74

July 31, 1996

TO: Members and Member Organizations

ATTENTION: Chief Executive Officers/Managing Partners/
Compliance Officers/Senior Registered Options Principals

FROM: Capital Markets Division

SUBJECT: Smith Barney Holdings, Inc. -
S&P 500 Equity Linked Notes  due August *, 2001

The aforementioned Securities are the subject of a Preliminary Prospectus Supplement and will commence trading at a date to be announced (Ticker Symbol: XSB).

The Securities are debt securities of Smith Barney Holdings, Inc. and will be issued in denominations of \$15 and integral multiples thereof. Each \$15 principal amount will be deemed a "Unit" for purposes of trading and settlement. At maturity, a beneficial owner will be entitled to receive, with respect to each Unit, the principal amount (\$15) **plus** an amount (the "Supplemental Redemption Amount"), which equals the product of (A) the principal amount of the applicable Security, (B) the percentage increase from the Starting Index Value to the Ending Index Value, and © a Participation Rate*. In no event will the Supplemental Redemption Amount, if any, be less than zero. The Units do not provide for any other payment, nor will they be redeemable or callable prior to maturity.

The Preliminary Prospectus Supplement sets forth the following formula for calculating the Supplemental Redemption Amount:

$$\text{Principal Amount} \times \frac{[\text{Ending Index Value}^{**} \text{ minus Starting Index Value}^*]}{\text{Starting Index Value}^*} \times \text{Participation Rate}^*$$

The purpose of this circular is to provide basic information to Members and Member Organizations regarding a proposed new issue of S&P 500 Equity Linked Notes and to advise of certain compliance responsibilities when handling transactions in these securities. This is not a sales document and is not intended to be distributed to customers.





* To be announced at the time of the initial public offering.

** The Ending Index Value, as more fully described in the Prospectus Supplement, will equal the average (arithmetic mean) of the closing values of the Index on certain Calculation Days prior to maturity, or, if certain events occur, the closing value of the Index on a single Calculation Day prior to maturity.





S&P 500 INDEX:

The Index is published by Standard & Poors (“S&P”) and is intended to provide an indication of the pattern of common stock price movement. The calculation of the value of the Index is based on the relative value of the aggregate market value of the common stocks of 500 companies at a particular time as compared to the aggregate average market value of the common stocks of 500 similar companies during the base period from the years 1941 through 1943. The 500 companies are not the 500 largest companies listed on the NYSE and not all 500 companies are listed on such exchange. S&P chooses companies for inclusion in the Index with an aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of the U.S. equity market. As of June 30, 1996, the 500 companies included in the Index were divided into 105 individual groups and 11 economic sectors. Financials, Utilities, and Transportation account for 3 of the 11 sectors. The Industrials are broken into 8 sectors - Basic Materials, Capital Goods, Communication Services, Consumer Cyclicals, Consumer Staples, Energy, Health Care and Technology. S&P may from time to time, in its sole discretion, add companies to, or delete companies from the Index to achieve the objectives stated above. “Standard & Poors®,” “S&P®,” “S&P 500®,” and “Standard & Poor’s 500®” are trademarks of The McGraw-Hill Companies, Inc.

CERTAIN RISK FACTORS:

-  If the Ending Index Value does not exceed the Starting Index Value, holders of these securities will receive only the principal amount (i.e. \$15 per Unit) at maturity, and no Supplemental Redemption Amount, even if the value of the Index at some point between the issue date and maturity date exceeded the Starting Index Value.
-  The return of principal to holders of these securities at maturity and the payment, if any, of a Supplemental Redemption Amount, may not reflect the full opportunity cost implied by inflation or other factors relating to the time value of money.
-  The Index does not reflect the payment of dividends on the underlying stocks and, therefore, the yield based on the Index to the maturity of XSB will not produce the same yield as if such underlying stocks were purchased and held for a similar period.
-  The trading value of XSB may be affected by a number of interrelated factors including, among other things, the creditworthiness of the Issuer, changes in the level of interest rates, the volatility of the Index, the time remaining to maturity, dividend rates on the stocks comprising the Index, as well as political, economic and other developments affecting the stocks included in the Index.

OTHER IMPORTANT INFORMATION:

-  The S&P 500 Index value is available each trading date under the symbol “SPX”.
-  Investors should consider the tax consequences of investing in XSB. See “Certain United States Federal Income Tax Considerations” in the Prospectus Supplement.
-  The securities are backed only by Smith Barney Holdings, Inc. and do not give XSB holders the right to receive any of the stocks comprising the Index.
-  Ownership of XSB will be maintained in book-entry form by or through The Depository Trust Company (“DTC”). Beneficial owners will not have the right to receive physical certificates evidencing their ownership except under certain limited circumstances described in the Prospectus Supplement.

The foregoing information has been excerpted from the Preliminary Prospectus Supplement, and the Exchange assumes no responsibility for the accuracy or completeness of such information. Members and associated persons of member organizations are advised to read the Prospectus and Prospectus Supplement.

REGULATORY CONSIDERATIONS:

MARGIN AND CAPITAL REQUIREMENTS

For margin and capital purposes XSB will be considered an equity security. A long XSB position will have an initial\maintenance margin requirement equal to 50%\25% of market value, respectively. For capital purposes XSB positions will be subject to a haircut equal to 15% of market value. There are no haircut offsets for related derivative securities.

SALES PRACTICES

XSB is considered an equity security and is subject to the provisions of Rule 30.50. A customer's account is not required to be options approved. Members and associated persons of member organizations should take such steps as may be reasonably necessary to assure that prospective purchasers of XSB reach an investment decision only after carefully considering the suitability of XSB in light of their particular financial circumstances and objectives.

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Questions regarding suitability of customers transactions in these securities should be directed to Larry Bresnahan (312) 786-7713 and questions regarding marginability should be directed to Diane Malley (312) 786-7924. General product questions should be directed to Nick Parcharidis of the Capital Markets Division (212) 803-1411.