

REGULATORY CIRCULAR NO. RG98-74  
July 1, 1998

TO: Members and Member Organizations

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

FROM: Capital Markets Division

SUBJECT: 1998 Ten + <sup>SM</sup> Index Call Warrants  
Expiring \_\_\*, 2000

The Warrants are the subject of a Preliminary Prospectus Supplement dated June 16, 1998 and will commence trading at a date to be announced (Trading Symbol: TPW.WS).

Each Call Warrant will entitle Holders to receive from Salomon Smith Barney Holding Inc. an amount in cash (*i.e.*, "Cash Settlement Value") computed by reference to price increases, if any, in the 1998 Ten + Index, a diversified basket of equity securities which will contain between 15 and 20 common stocks (which may be ADR's, or ordinary shares of foreign stock). The specific equity securities will be selected and announced prior to trading. These "American Style" Warrants will be exercisable on any Business Day from \_\_\*, 1998 and until 3:00 P.M. Eastern Time on the fourth Business Day immediately preceding expiration. All in-the-money Warrants not exercised will be automatically exercised on the expiration date.

As more fully detailed in the Prospectus, the Cash Settlement Value will equal the greater of (A) zero and (B) the product (rounded down to the nearest cent) of (i) the quotient obtained by dividing (x) the amount, if any, by which the Spot Index Value for the applicable Valuation Date exceeds the product of (a) .8 and (b) the Initial Index Value by (y) the Initial Index Value and (ii) \$10. The Initial Index Value will be set at the close of the market on the 21<sup>st</sup> Trading Day following issuance of the Warrants and will remain constant throughout the term of the Warrants. The Valuation Date will be the first Business Day after the Exercise Date, except in the case of an Extraordinary Event or a Market Disruption Event, as more fully described in the Prospectus.

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The purpose of this Circular is to provide basic information to Members and Member Organizations regarding a proposed new issue of Call Warrants on the 1998 Ten + <sup>SM</sup> Index and to advise of certain compliance responsibilities when handling transactions in the Warrants. This is not a sales document and is not intended to be distributed to customers. Warrants can only be sold to investors whose accounts have been approved for the trading of standardized options.

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

**"Ten +" is a registered service mark of Salomon Smith Barney Holdings Inc.**

## **1998 Ten + <sup>SM</sup>INDEX SUMMARY:**

The Index will be calculated and disseminated by the CBOE (Symbol: TXS) using an “equal dollar-weighting” methodology. To create the Index, Salomon Smith Barney will calculate a notional portfolio of stocks representing an investment of \$10,000 in each component security (rounded to the nearest whole share). The first Index value will be computed by taking the sum of the assigned number of shares of each of the underlying stocks and dividing that number by a divisor to provide a benchmark value of 100.00. For cash settlement value purposes, however, the level of the Index at the close of trading on August \_\_\*, 1998 (21 Trading Days following issuance) will be deemed to be the “Initial Index Value,” and once determined will remain fixed throughout the life of the instrument.

The number of shares of each underlying stock will remain fixed except in the event of certain types of corporate actions such as the payment of a dividend (other than an ordinary cash dividend), a stock distribution, stock split, reverse stock split, reorganization, recapitalization, or other such event. The number of shares of each underlying stock may also be adjusted by the CBOE, if necessary, in the event of a merger, consolidation, dissolution, or liquidation or in certain other events such as the distribution of property or nationalization of a foreign issuer. Shares of an underlying stock may be replaced (or supplemented) by the CBOE with another security only under certain limited circumstances. No attempt will be made to find a replacement stock or to otherwise compensate for an underlying stock that is extinguished due to bankruptcy or similar circumstances.

## **OTHER IMPORTANT INFORMATION:**

- Calculation of the Cash Settlement Value may be postponed and possibly made under an alternative formula due to an “Extraordinary Event” or a “Market Disruption Event” as set forth in the Prospectus Supplement.
- A Warrantholder may exercise no fewer than \_\_\* Warrants at any one time, except in the case of automatic exercise. Warrantholders will also have the right to specify that such Warrants are not to be exercised if the Index Spot Price on the applicable Valuation Date is \_\_\* or more points lower than the most recent closing level of the Index on the applicable Exercise Date.
- The Issuer has the right to limit the number of Warrants exercisable on any date (except on automatic exercise) to an aggregate of \_\_\* and, to limit the number of Warrants exercisable by or on behalf of any person or entity, either individually or in concert with any other person or entity, on such date to \_\_\*.
- The Index may include stocks of non-U.S. companies in the form of ordinary shares or ADR’s. There are certain risks involved in investing in these types of securities which are in addition to the investment risks inherent in U.S. securities.

## CERTAIN RISK FACTORS

- Investing in Warrants involves a high degree of risk including the risk of the Warrants expiring worthless if the Spot Index Value is less than or equal to 80% of the Initial Index Value. Thus, prospective purchasers of the Warrants should recognize that their Warrants may expire worthless and should be prepared to sustain a total loss of their investment.
- The Warrants will not be exercisable at the time of their initial public offering. The Cash Settlement Value of the Warrants at any time prior to their expiration is expected typically to be less than the trading price of the Warrants at that time. The difference between the trading price and the Cash Settlement Value will reflect, among other things, a “time value” for the Warrants.
- Investment decisions relating to the Warrants, require the investor to predict the direction of movements of the stocks underlying the Index as well as the amount and timing of those movements. Moreover, as the Warrants are a “wasting asset,” in the absence of countervailing factors such as an offsetting change in the level of the Index, the price of the Warrants will tend to decrease over time and will have no value after the time for exercise has expired.
- A Warrantholder will not be able to determine, at the time of exercise, the Index Spot Price that will be used in calculating the Cash Settlement Value. In addition, the Valuation Date for exercised Warrants may be postponed upon the occurrence and continuation of an Extraordinary Event or a Market Disruption Event.
- The trading value of a Warrant is expected to be dependent upon the relationship between the Initial Index Value and the Spot Index Value at such time as well as a number of complex interrelated factors, including the level of the Index, the volatility of the Index, the time remaining to the expiration, and the dividend rate on the stocks comprising the Index.
- It is not possible to predict how the Warrants will trade in the secondary market or whether such market will be liquid or illiquid. To the extent Warrants are exercised, the number of Warrants outstanding will decrease, resulting in a decrease in the liquidity. In addition, the Issuer or one or more of its affiliates or the Underwriters may from time to time purchase Warrants resulting in a decrease in the liquidity of the Warrants.
- Prices of the stocks underlying the Index will be influenced by political, economic, financial, and other factors that can affect the capital markets generally and the equity trading markets on which the underlying stocks are traded.

The foregoing information is excerpted from the Prospectus, 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 entire Prospectus for information relating to the Warrants.

## REGULATORY CONSIDERATIONS

The Warrants involve a high degree of risk and are not for everyone. It is important that investors be afforded an explanation of the special characteristics and risks of the Warrants. Transactions in the Warrants may only be effected for customers whose accounts have been approved for options trading pursuant to CBOE Rule 9.7. Attention is also directed to CBOE Rule 9.9 which is applicable to recommendations concerning transactions in the Warrants. Further, the requirements of CBOE Rules 9.10, (“Discretionary Accounts”) and 9.21 (“Communication to Customers”), are applicable to the Warrants.

Member and Member Organizations are reminded that SEC Rule 10a-1 (“Short Sales”) and “front running” prohibitions (RG92-29) apply to trading the Warrants on the Exchange.

## MARGINS AND OTHER REGULATORY INFORMATION

The margin requirement for a short Warrant will be 100% of the premium plus 20% of the underlying value, less out-of-the-money dollar amount, if any, to a minimum of 10% of the Index Value. A long Warrant position must be paid for in full. Straddles will be permitted for call and put Warrants covering the same underlying value. Members should be aware that the special characteristics of Warrants (*e.g.*, the necessity of borrowing to make delivery on short sales, the issuer credit risk associated with long warrants, and pricing differences between Warrants and Options) may cause these margin requirements to be insufficient to fully cover the risk of positions in the Warrants in certain circumstances. Members must be prepared to call for additional margin when appropriate.

For capital purposes, the Warrants will be treated as narrow based stock index options. Rules for trading Warrants are found in Chapter XXX of the Exchange Guide. Members must be approved by application submitted to the Membership Committee pursuant to Exchange Rule 30.2 to participate in the trading on the Exchange of securities subject to the rules of Chapter XXX.

## POSITION LIMITS

Pursuant to Exchange Rule 30.35 (a) the applicable position and exercise limit is 15 million Warrants on the same side of the market in aggregate of all warrants issued on the 1998 Ten +<sup>SM</sup> Index.

## REPORTABLE POSITIONS

Pursuant to Exchange Rules 4.13 (a) and 30.35 (d), each member shall file a report with the Department of Market Regulation identifying those customer accounts with an aggregate position in excess of 100,000 Warrants overlying the same stock index. Copies of the reporting form are available in the Department of Market Regulation.

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Questions regarding suitability of customer transactions in these Warrants should be directed to Larry Bresnahan (312) 786-7713 and questions regarding marginability should be directed to Jim Adams (312) 786-7718. General product questions should be directed to Nick Parcharidis of the Capital Markets Division in New York at (212) 803-1411.