



REGULATORY CIRCULAR RG99-86

April 5, 1999

TO: Members and Member Organizations

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

FROM: Capital Markets Division

SUBJECT: TARGETS TRUST II

The following Securities are the subject of a Preliminary Prospectus and will commence trading on a date to be announced (Ticker Symbol: TLU; CUSIP: 87612U100).

Targeted Growth Enhanced Term Securities ("TARGETS")
With Respect to the Common Stock of Lucent Technologies Inc.
Due on __, 2001

Holders of TARGETS ("TLU") will receive cash distributions of * per quarter on each * * * and *, beginning *, 1999. At maturity, Holders are entitled to an amount equal to the sum of (A) the product of (i) the then Current Market Price** of Lucent common stock as of the Maturity Date multiplied by (ii) the "Exchange Rate" and (B) any previously unpaid "Yield Enhancement Payments". The Exchange Rate shall be 0.1 if the Market Price** of the Common Stock on the Maturity Date is less than or equal to an Appreciation Cap*. If the Market Price is greater than the Appreciation Cap*, then the Exchange Rate shall be a fraction -- the numerator being the Appreciation Cap times 0.1 and the denominator being the Market Price of Lucent Common Stock as of the Maturity date.

TLU represent preferred undivided beneficial ownership interests in the assets of TARGETS Trust II, a recently formed business trust ("Trust"). The Trust exists for the sole purpose of issuing TLU and will invest approximately 86-91% of the proceeds of the offering to purchase from Salomon Smith Barney, a forward contract with respect to the common stock of Lucent Technologies, and approximately 9-14% of the proceeds from the offer will be used to purchase certain Treasury Securities.

The purpose of this circular is to provide basic information to Members and Member Organizations regarding a proposed new issue of Equity Linked Notes based upon Lucent Technologies Common Stock 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

** As more fully described in the Prospectus, the "Current Market Price" will generally be based on the average price of Lucent common stock, for the 10 days prior to, but not including, one business day before the maturity date.

- TLU differs from most types of trust preferred securities in that the payment that a Holder will receive at maturity is not fixed, but rather will be based on the then Market Price of Lucent Common Stock. There can be no assurance that the amount of such payment will be equal to or greater than the amount an investor initially paid for the TLU. Therefore, purchasers of TLU bear the full risk of a decline in the value of Lucent Common Stock prior to maturity of TLU.
- The opportunity for appreciation afforded by an investment in TLU is less than the opportunity for appreciation afforded by a direct investment in Lucent Common Stock. As a result of the limitation provided by the Appreciation Cap*, Holders of TLU will only be entitled to a maximum of * of any appreciation in the value of Lucent Common Stock.
- The market price at any time will be affected primarily by changes in the price of Lucent Common Stock. It is impossible to predict whether the price of the stock will rise or fall. Trading prices of TLU will be influenced by Lucent's results of operations and by complex and interrelated political, economic, financial and other factors that can affect the capital markets.
- Although the yield on TLU will be higher than the current dividend on Lucent Common Stock, there can be no assurance that this difference will remain throughout the life of the instrument.
- Upon the occurrence of an Acceleration Event (as set forth in the Prospectus), the maturity date will be accelerated and the Trustee will sell the Treasury Securities, liquidate the Trust and cause the Accelerated Maturity Payment with respect to each TLU and a pro rata portion of the Treasury Proceeds to be distributed to Holders of the TLU.

OTHER IMPORTANT INFORMATION:

- Investors should consider the tax consequences of investing in TLU. See "United States Federal Income Tax Considerations" in the Prospectus.
- The Securities are backed only by Salomon Smith Barney Holdings Inc.
- Lucent is not in any way involved with this offering and has no obligation with respect to these securities.
- Lucent has indicated that it may declare a 2-for-1 split of its common stock in April, 1999. If the split occurs, the Exchange Rate will be adjusted accordingly.
- Holders of TLU will not be entitled to any rights with respect to Lucent Common Stock including, without limitation, voting rights, and dividends or other distributions.
- TLU will be quoted and traded in round lots of 100, and will trade "flat" without accrued interest.

The foregoing information has been excerpted from the Preliminary 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 both the Preliminary Prospectus and the final Prospectus.

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REGULATORY CONSIDERATIONS

MARGIN AND CAPITAL REQUIREMENTS

For margin and capital purposes, TLU will be considered an equity security. A long TLU position will have an initial and maintenance margin requirement equal to 50% and 25% of market value, respectively.

For Lucent options market-makers, TLU qualifies as an options hedge (permitted offset) under Exchange Rule 12.3(f)(3)(A)(vii). Members should be aware that making markets in or trading TLU, or any structured product, other than to hedge market-maker transactions in Lucent options, does not qualify as an options hedge and will subject the Member to the provisions of the Net Capital Rule. Members should refer to Regulatory Circular RG 97-40 for further information regarding capital requirements and structured products.

For capital purposes, TLU positions will be subject to a haircut equal to 15% of market value. Haircut offsets for related derivative securities will be available at such time as the Options Clearing Corporation incorporates TLU into its theoretical pricing program. For status updates, contact the Department of Financial and Sales Practice Compliance.

SALES PRACTICES

TLU 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 TLU reach an investment decision only after carefully considering the suitability of TLU 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 Barry Szurgot (312) 786-7756 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 (212) 803-1411.