



REGULATORY CIRCULAR NO. 98-25

February 20, 1998

TO: Members and Member Organizations

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

FROM: Capital Markets Division

SUBJECT: Salomon Smith Barney Holdings Inc.  
Equity Linked Notes based upon the Dow Jones Industrial Average ☺, Due \_\_\*, 2005

The aforementioned Notes are the subject of a Preliminary Prospectus Supplement and will commence trading at a date to be announced (Trading Symbol: DSB; CUSIP NO. 79549B826).

DSB are senior unsecured debt securities of Salomon Smith Barney Holdings Inc. and will be issued in denominations of \$15 and integral multiples thereof. At maturity, holders of DSB will be entitled to receive, with respect to each Note, the principal amount (i.e. \$15) **plus** a ~~1/2~~Supplemental Redemption Amount ~~based~~ based on the percentage increase, if any, in the Dow Jones Industrial Average ☺ (see "Ending Index Value" below), **multiplied** by a Participation Rate of at least 100%. In no event will the Supplemental Redemption Amount be less than zero. The Securities will 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:

$$\text{\$15 times } \left[ \frac{\text{Ending Index Value** minus Starting Index Value*}}{\text{Starting Index Value*}} \right] \text{ times Participation Rate *}$$

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 the Dow Jones Industrial Average ☺ 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 (EIV), as more fully described in the Preliminary Prospectus Supplement, will equal the average of the values of the Dow Jones Industrial Index at the close of the market on the \_\_\_\_\* of each month during the eighteen-month period prior to maturity of the Notes.





## THE DOW JONES INDUSTRIAL AVERAGE:


Unless otherwise stated, all information herein on the Dow Jones Industrial Average ☺ is derived from Dow Jones or other publicly available sources. Such information reflects the policies of Dow Jones as stated in such sources and such policies are subject to change by Dow Jones. Dow Jones is under no obligation to continue to publish the Index and may discontinue its publication at any time.

The Dow Jones Industrial Average ☺ is a price-weighted index (i.e., the weight of a component stock is based on its price per share rather than the total market capitalization of the issuer of such component stock) comprised of 30 common stocks chosen by the editors of the WSJ as representative of the broad market of U.S. industry. The corporations represented in the Index tend to be leaders within their respective industries and their stocks are typically widely held by individuals and institutional investors. Changes in the composition of the Index are made entirely by the editors of the WSJ without consultation with the corporations represented in the Index, any stock exchange, any official agency or the Issuer of the Notes. Although changes to the common stocks included in the Index tend to be made infrequently, the component stocks may be changed at any time for any reason. Dow Jones, publisher of the WSJ, is not affiliated with the Issuer and has not participated in any way in the creation of the Notes.

“Dow Jones ☺” and “Dow Jones Industrial Average ☺” are service marks of Dow Jones & Company, Inc. (“Dow Jones”) and have been licensed for use for certain purposes by the Issuer. The Notes are not sponsored, endorsed, sold or promoted by Dow Jones. Dow Jones makes no representation regarding the advisability of investing in the Notes.








## CERTAIN RISK FACTORS:

-  If the Ending Index Value does not exceed the Starting Index Value, Holders of DSB will only receive the principal amount (\$15 per Security) at maturity, and no Supplemental Redemption Amount. This may be true even if the value of the Dow Jones Industrial Average ☺ exceeds the Starting Index Value at some point during the life of the Notes.
-  Because the Ending Index Value will be based upon the closing value of the Index on a certain day of each month during the eighteen-month period prior to maturity, a significant increase in the Index subsequent to issuance may be substantially or entirely offset by subsequent decreases in the value of the Index during or prior to the Calculation Period. In addition, a high Index value at the close of one or more months during the Calculation Period may be substantially or entirely offset by a low Index value at the close of one or more months during such Period.
-  The Notes will not bear periodic payments of interest. Because the Ending Index Value of the Dow Jones Index may be less than, equal to or only slightly greater than the Starting Index Value, the effective yield to maturity on the Notes (which are linked to the amount by which such Ending Index Value exceeds such Starting Index Value) may be less than that which would be payable on a conventional fixed-rate debt security of the Issuer. In addition, the return of only \$15 in respect of each Note held at maturity may not compensate the Holder for any opportunity cost implied by inflation and other factors relating to the time value of money.
-  Any return on the Notes will be based on the appreciation of the Dow Jones Industrial Average ☺ and not on dividends paid on the stocks underlying the Index. Therefore, a return on the Notes, if any, will not be the same as the return that could have been earned if Holders of the Notes owned each of the stocks underlying the Index and received dividends.

-  The trading value of DSB may be affected by a number of interrelated factors including, among other things, 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, real or anticipated changes in the credit ratings or financial condition of the companies whose common stock are included in the Index, the creditworthiness of the Issuer, as well as political, economic and other developments affecting the stocks included in the Index.

## **OTHER IMPORTANT INFORMATION:**

-  Investors should consider the tax consequences of investing in DSB. See  Certain United States Federal Income Tax Considerations  in the Preliminary Prospectus Supplement.
-  The Notes are backed only by Salomon Smith Barney Holdings Inc. and do not give Holders of DSB the right to receive any of the stocks comprising the Index.
-  Ownership of DSB 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 Preliminary 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 both the Prospectus and the Preliminary Prospectus Supplement.

## **REGULATORY CONSIDERATIONS:**

### **MARGIN AND CAPITAL REQUIREMENTS**

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

DSB does not qualify as an options hedge under the Securities and Exchange Commission's Rule 15c3-1 (the "Net Capital Rule") or the Exchange's margin rules. Therefore, members should be aware that making markets in or trading DSB, or any structured product that does not qualify as an options hedge, 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, DSB positions will be subject to a haircut equal to 15% of market value. There are no haircut offsets for related derivative securities.

### **SALES PRACTICES**

DSB 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 DSB reach an investment decision only after carefully considering the suitability of DSB 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 Jim Adams (312) 786-7718. General product questions should be directed to Nick Parcharidis of the Capital Markets Division (212) 803-1411.