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ARIZONA CORPORATION COMMISSION

JAMES MATTHEWS
EXECUTIVE SECRETARY

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2998
TELEPHONE: (602) 542-4242
FAX: (602) 542-3583

August 31, 1995

Leslie A. Klein, Esq.
Senior Vice President & Managing Counsel
Smith Barney
388 Greenwich St.
20th Floor
New York, NY 10013

RE: Smith Barney Registered Representative Retirement Program
A.R.S. § 44-1945, *et seq.*

Dear Mr. Klein:

On the basis of the facts set forth in your letters with accompanying attachments of July 22, 1993, August 23, 1993, February 1, 1994, May 22, 1995, and August 22, 1995, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letters, subject to the conditions stated below.

Because this position is premised upon the facts set forth in your letters, and strict adherence thereto by Smith Barney and the retired and receiving salesmen, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable. Moreover, be advised that any act or conduct which will bring the retired salesman within the definition of "salesman" under the Act may result in administrative sanctions against any or all parties including the supervisory dealer. Likewise, any act or conduct by the retired salesmen which constitutes an "offer to sell" or "sale" of securities in violation of the Act may result in administrative sanctions against any or all parties including the supervisory dealer.

As a condition of granting your request, we will require Smith Barney to submit to the Division the names and CRD numbers of every retired salesman who will participate in the Program and who would otherwise be required to register in Arizona, together with the date of retirement, the date of implementation of the Program, semiannual reports of the amounts distributed to the retired salesman, and a final summary report when the Program has concluded. The Director of Securities reserves the right to impose further standards on a prospective basis should the circumstances so warrant.

Leslie A. Klein
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We have attached photocopies of your letters. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

A handwritten signature in black ink, appearing to read "DRH", with a stylized flourish extending to the right.

DEE RIDDELL HARRIS
Director of Securities

DRH:skm

Attachment

**SHEARSON
LEHMAN
BROTHERS**



LESLIE A. KLEIN
SENIOR VICE PRESIDENT

July 22, 1993

FEDERAL EXPRESS

Ms. Leslie R. Block
Arizona Corporation Commission
Securities Division
1300 West Washington
Suite 300
Phoenix, Arizona 85007

Re: Shearson Registered Representative Retirement Program

Dear Ms. Block:

At the suggestion of Michael Burton, I am writing to you in order to outline Shearson Lehman Brothers Franchise Protection Program ("Program"). Shearson intends to implement the Program soon. Shearson's implementation of this Program has been informally approved by the Staffs of the Securities and Exchange Commission, the New York Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Staffs of each of the foregoing have advised us of their view that retiring Financial Consultants (retired Registered Representatives) participating in the Program need not continue their registrations if their sole involvement in the securities business is to receive compensation pursuant to the Program. A copy of the No-Action Letter recently received from the Securities and Exchange Commission is attached as Exhibit 1.

The following will outline the Program itself in an effort to provide you with as much information as possible in order for Shearson to obtain the State's approval to implement the Program. A copy of the Program Brochure is attached as Exhibit 2.

The Program seeks to provide clients of Retiring Financial Consultants ("FC") with continuity of service by allowing them to work, over a set period of time, with both their retiring FC and the newly designated FC. This permits clients to become familiar with their new FC before their existing FC retires. The Program thereby strives to increase client retention for Shearson while recognizing the service, loyalty and quality performance of the Firm's FCs.

Under the Program, Shearson will enter into agreements with certain eligible Financial Consultants who are close to retirement. Financial Consultants are eligible for participation in the Program if they are at least

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55 years old, have been employed by Shearson for at least ten years, and have achieved production levels in the first or second quintiles of Shearson's Financial Consultants rankings in each of the five years preceding their intended retirement date. In addition, Financial Consultants must meet certain quality criteria (set forth below) that are set by a Shearson Quality Review Board, which consists principally of Shearson senior management and compliance and legal department personnel.

Alternatively, Financial Consultants may qualify for participation in the Program if they meet the quality criteria and if they have been employed by Shearson for at least 15 years and their participation is approved by their Branch Manager, Divisional Director, and Group President; or they may qualify if they have been employed by Shearson for at least 5 years, they have achieved production levels in the first or second quintiles of Shearson's Financial Consultants rankings in each of the five years preceding their intended retirement date, and their participation is approved by their Branch Manager, Divisional Director, and Group President.

As indicated, an important component that FCs must meet in order to be eligible for participation in the Program is the quality criteria which are set by the Firm's Quality Review Board. The Quality Review Board consists of members from various parts of the Firm's organization. The membership includes:

Managing Partner/Shearson Lehman Brothers Division
Vice Chairman/Director of Branch Control
Director of Human Resources/Quality/Shearson Lehman
Brothers Division
General Counsel/Additional Senior Members of the General
Counsel's Office & Compliance

The quality criteria which the Board will review includes:

- sales practice complaints which are reportable pursuant to NYSE Rule 351(d) (i.e. misrepresentation, unauthorized trading, unsuitability, churning, etc.)
- arbitrations or civil litigations
- regulatory investigations or proceedings initiated by any Self-Regulatory Organization, State or the Securities and Exchange Commission.

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If an FC has had one complaint (as defined above), arbitration, civil litigation, regulatory investigation, that FC will be reviewed by the Quality Review Board. While the Board applies an objective standard for review, its actual review is subjective.

Among the factors the Board will consider in determining whether an FC should be disqualified from the Program are:

- The nature and severity of the facts underlying the complaint, arbitration, civil litigation or regulatory investigation (impact on the client and the Firm)
- The dollar value of any settlements
- Whether an arbitration or civil litigation was tried to conclusion and the basis of any award or judgment
- The nature of any regulatory investigation and any sanctions imposed
- The basis and results of any internal reviews of the FC

Pursuant to each agreement (a copy of the Franchise Protection Program and the Covenant Not to Compete are attached as Exhibit 3), the retiring Financial Consultant, along with Shearson, will designate some or all of the then active client accounts of the retiring Financial Consultant for servicing by a named continuing Financial Consultant, who will also be a party to the agreement. The accounts which are so designated will be the Core Book clients and will be the only accounts eligible for continued commission payments. Any new accounts referred to the Receiving FC by a Core Book Client will be ineligible for participation in the Program with the exception of an additional Core Book account opened by a member of the immediate family of a Core Book client residing in the same household as the Core Book client and a new account created by a rollover of funds from a Core Book account.

The agreements further provide that during a transition period, a minimum of six months, the retiring Financial Consultant will introduce his clients to the continuing Financial Consultant, and both will exert their best efforts to ensure that the clients of the retiring Financial Consultant enjoy uninterrupted customer service throughout the transition period and after the retirement of the retiring Financial Consultant.

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July 22, 1993
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The agreements further provide that for up to five years following the transition period, the retiring and continuing Financial Consultants will share any sales commissions generated by activity in the designated core client accounts. The share of the commissions allotted to the retiring Financial Consultant will decrease each year until it reaches zero at the end of the period set forth in the agreement.

There is one important set of conditions to the receipt of any commissions by the retiring Financial Consultant. During the term of the agreement, the retiring Financial Consultant must not contact his former clients for the purpose of soliciting them to engage in securities transactions, nor may he even discuss such transactions with them. Upon retirement, the former Financial Consultant must sever his association with Shearson, not maintain licensing as a principal, registered representative, investment advisor or investment advisor agent and he may not be associated in any capacity with any other broker, dealer, or investment adviser (nor hold himself out as being so associated) during the term of the agreement.

If a retired Financial Consultant fails to adhere to these conditions, he will not be eligible to receive any payments otherwise receivable under the Franchise Protection Plan, and he will be required to forfeit all payments previously received under the Franchise Protection Plan. In other words, it is an absolute condition of the receipt of any funds under the Franchise Protection Plan that a retiring Financial Consultant be, in fact, retired and not engaged in the securities business in any fashion.

Shearson will adopt measures designed to reinforce the message that any retired Financial Consultant who violates the terms of his contract will be detected. These measures would reduce any risk to the investing public to negligible levels. The measures will include notifying the customer of the retirement of the Financial Consultant, that the Financial Consultant is precluded by contract from contacting them to discuss investments, and that they should contact Shearson in the event of such improper contact (a copy of this notification is attached as Exhibit 4); requiring annual certification from retired Financial Consultants, as a condition of receiving payments under the Franchise Protection Program, that they have not been in contact with their former customers (a copy of the certification is attached as Exhibit 5); contacting clients of retired Financial Consultants on a regular basis to verify that they have not been contacted by their former Financial Consultants (a copy of the client letter is attached as Exhibit 6); and of course ongoing supervision of active Financial Consultants as part of Shearson's regular compliance supervision and oversight.

Ms. Leslie R. Block
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In the event of a Receiving FC(s) separation from the Firm for any reason including, but not limited to, death, disability, voluntary termination or inability to satisfy quality standards, the Branch Manager may select a replacement to fulfill the remaining term of the agreement.

It is Shearson's view that receipt of payments calculated as a percentage of the commissions otherwise payable to active Financial Consultants does not require retired Financial Consultants to maintain their status as registered associated persons with Shearson. As mentioned above, Shearson has received informal assurances from the Staffs of the SEC, the NASD, and the NYSE that they share this view. We have also received no-action relief from the States of Michigan, New Jersey, New York and Washington (copies of those No-Action Letters are attached as Exhibit 7).

Once again, we would appreciate receiving the State's approval to implement the Franchise Protection Program as soon as possible. Should you require any additional information about the Program, please feel free to communicate with me.

Very truly yours,



Leslie A. Klein
Senior Vice President
Associate General Counsel

LAK:bjc
enclosure

SMITH BARNEY SHEARSON

August 23, 1993

Michael Burton, Esq.
Arizona Corporation Commission
Securities Division
1300 West Washington
Suite 300
Phoenix, Arizona 85003

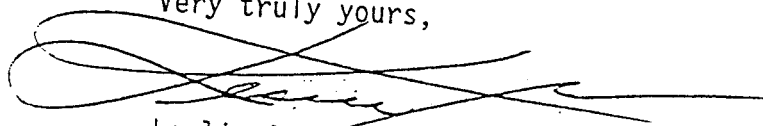
Re: Smith Barney Shearson Registered Representative Retirement Program

Dear Mr. Burton:

In response to your telephone inquiry of today, please be advised that Smith Barney Shearson will be adopting the Registered Representative Retirement Program which was originally offered by Shearson Lehman Brothers and which I outlined to you in my letter of July 22, 1993. All references to Shearson Lehman Brothers in that letter, as well as in the accompanying literature, should read Smith Barney Shearson.

If you have any further questions or require any additional information, please feel free to communicate with me.

Very truly yours,



Leslie A. Klein
Senior Vice President
Associate General Counsel

LAK:bjc

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SMITH BARNEY SHEARSON INC.
388 GREENWICH STREET
NEW YORK, NY 10013-2396
(212) 464-6000

SMITH BARNEY SHEARSON

February 1, 1994

Mr. Michael Burton
Arizona Corporation Commission
Securities Division
1300 West Washington
Suite 300
Phoenix, Arizona 85007

Re: Smith Barney Shearson Registered Representative Retirement Program

Dear Mr. Burton:

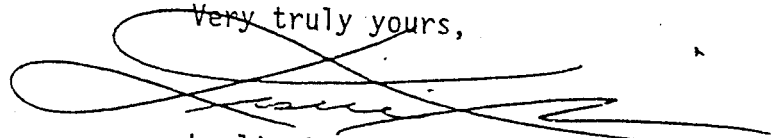
On July 22, 1993, we forwarded a letter to Ms. Leslie R. Block requesting no action relief for the Smith Barney Shearson Registered Representative Retirement Program (a copy of that July 22, 1993 letter is attached). In addition to the letter, we also forwarded our check in the amount of \$200.00.

To date, we have not received a response from the Commission to our request. We would like to also advise you that since our initial filing with the State, the Program has been approved by five (5) additional states, namely, California, North Carolina, Wisconsin, Illinois and Pennsylvania.

We would appreciate receiving your response to our request for a no-action letter as expeditiously as possible.

If you have any questions, please feel free to call me.

Very truly yours,



Leslie A. Klein
Senior Vice President
Associate General Counsel

SMITH BARNEY

A Member of Travelers Group

Leslie Klein
Senior Vice President
Managing Counsel

212-816-8190

May 22, 1995

Mr. Michael Burton
Arizona Corporation Commission
Securities Division
1300 West Washington
Suite 300
Phoenix, Arizona 85007

Re: Smith Barney Registered Representative Retirement Program

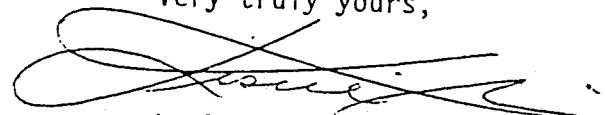
Dear Mike:

Pursuant to our telephone conversation of last week, and to supplement my letter to you of February 1, 1994, please be advised of the following:

1. Attached are copies of approval letters from the states that have approved the Smith Barney Registered Representative Retirement Program to date;
2. Currently, there are 36 Registered Representatives participating in the Program nationwide;
3. There are currently 26 Registered Representatives who are eligible to participate in the Program in Arizona.

If you need any additional information, please do not hesitate to communicate with me.

Very truly yours,



Leslie A. Klein

LAK:bjc

attachments

SMITH BARNEY

A Member of TravelersGroup

Leslie Klein
Senior Vice President
Managing Counsel

212-816-8190

August 22, 1995

VIA FACSIMILE

Suzanne McKee, Esq.
Counsel/Trading and Markets
Arizona Corporation Commission
Securities Division
1300 West Washington
Suite 300
Phoenix, Arizona 85003

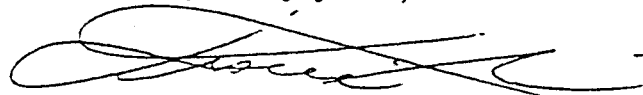
Re: Smith Barney Registered Representative Retirement Program

Dear Ms. McKee:

This letter will confirm the information I provided to you yesterday during our telephone conversation in which you questioned certain information which was provided to your office in our original request for no action relief dated July 22, 1993. In particular, you inquired as to whether or not an employee who qualifies for the Smith Barney Retirement Program by reason of the fact that they have been employed by Smith Barney for at least five (5) years, have achieved production levels in the first or second quintile of Smith Barney's FC rankings in each of the five (5) years preceding their intended retirement date and their participation is approved by their Branch Manager, Divisional Director and Group President, must also meet the quality criteria outlined in our initial letter. As I indicated to you, the quality criteria applies to any FC who qualifies for the Program based upon age, tenure of employment, production levels and approvals. In other words, every eligible employee must satisfy the quality criteria before they may participate in the Program.

If you require any additional information, please do not hesitate to communicate with me.

Very truly yours,



Leslie A. Klein

LAK:bjc