



DIVISION OF
CORPORATION FINANCE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

May 31, 2006

Jeffrey Q. Smith, Esq.
King & Spalding
1185 Avenue of the Americas
New York, NY 10036-4003

**Re: Lehman Brothers Inc., Administrative Proceeding File No. 3-12310—Waiver
Request under Regulation A and Rule 505 of Regulation D**

Dear Mr. Smith:

This is in response to your letter dated today, written on behalf of Lehman Brothers Inc. ("Lehman Brothers") and constituting an application for relief under Rule 262 of Regulation A and Rule 505(b)(2)(iii)(C) of Regulation D under the Securities Act of 1933 ("Securities Act"). You requested relief from disqualifications from exemptions available under Regulation A and Rule 505 of Regulation D that arose by virtue of the entry of an order dated today against Lehman Brothers and others as respondents by the Securities and Exchange Commission in the referenced administrative proceeding (the "Order"). The disqualifications arose because the Order was issued under Section 15(b) of the Securities Exchange Act of 1934 and contained paragraphs numbered IV.D and IV.E, which ordered Lehman Brothers, among other things, to provide written descriptions of its material auction practices and procedures for auction rate securities. The order also was issued under Section 8A of the Securities Act and also censured Lehman Brothers, ordered Lehman Brothers to cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act, and ordered Lehman Brothers to pay a civil money penalty in the amount of \$1,500,000.

For purposes of this letter, we have assumed as facts the representations set forth in your letter and the findings supporting entry of the Order against Lehman Brothers. We have also assumed that Lehman Brothers has complied and will continue to comply with the Order.

On the basis of your letter, I have determined that Lehman Brothers has made a showing of good cause under Rule 262 and Rule 505(b)(2)(iii)(C) that it is not necessary under the circumstances to deny the exemptions available under Regulation A and Rule 505 of Regulation D by reason of entry of the Order against Lehman Brothers. Accordingly, pursuant to delegated authority, Lehman Brothers is granted relief from any disqualifications from exemptions otherwise available under Regulation A and Rule 505 of Regulation D that arose as a result of entry of the Order against it.

Very truly yours,

Gerald J. Laporte
Chief, Office of Small Business Policy

Jeffrey Q. Smith

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May 31, 2006

Via Electronic Mail and Overnight Delivery

Gerald J. Laporte
Chief, Office of Small Business Policy
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-3628

RE: Auction Rate Securities Practices (File No. HO-09954)

Dear Mr. Laporte:

On behalf of our client, Lehman Brothers, Inc. ("LBI"),¹ we hereby respectfully request, pursuant to Rule 262 of Regulation A and Rule 505(b)(2)(iii)(C) of Regulation D promulgated under the Securities Act of 1933 (the "Securities Act"), a waiver of any disqualification from the exemptions set forth in Regulation A and Rule 505 of Regulation D that may be applicable to LBI and/or any of its affiliates as a result of the entry of the administrative order (the "Order") described below by the Securities and Exchange Commission (the "Commission") against LBI. We respectfully request that this waiver be granted effective upon entry of the Order. It is our understanding that the Division of Enforcement does not object to the grant of the requested waivers.

BACKGROUND

LBI is part of a group of broker-dealer firms that engaged in settlement discussions with the staff of the Division of Enforcement ("Staff") concerning a global settlement of the above-captioned investigation. As a result of those discussions, each of the firms consented to the entry of the Order pursuant to Section 8A of the Securities Act and Section 15(b) of the Exchange Act. The Order requires the firms to cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the

¹ LBI is a registered broker-dealer engaged in a full-service securities business, including institutional and high-net-worth sales, investment banking services, trading, and research.

Securities Act, censures the firms, imposes a civil money penalty,² and orders the firms to comply with certain undertakings. The Order includes findings, which the firms neither admit nor deny, that the firms violated Section 17(a)(2) of the Securities Act by managing auctions for auction rate securities in ways that were not adequately disclosed or that did not conform to disclosed procedures.

DISCUSSION

LBI understands that entry of the Order may disqualify it and its affiliated entities from certain exemptions under Regulation A and Rule 505 of Regulation D, insofar as the Order is an order of the Commission entered pursuant to Section 15(b) of the Exchange Act. The Commission has the authority to waive these disqualifications upon a showing of good cause that such disqualifications are not necessary under the circumstances. *See* 17 C.F.R. §§ 230.262 and 230.505(b)(2)(iii)(C). LBI hereby requests a waiver of the exemption disqualifications under Regulation A and Rule 505 of Regulation D with respect to LBI and its affiliates on the following grounds:

1) LBI's conduct addressed in the Order does not relate to offerings under Regulation A or D.

2) Denying this waiver request, and thereby denying LBI and its affiliates the exemptions available under Regulation A and Rule 505 of Regulation D, would be unduly and disproportionately severe, given that LBI must pay a significant civil penalty pursuant to the Order.

3) The disqualification of LBI and its affiliates from the exemptions available under Regulation A and Rule 505 of Regulation D would be unduly and disproportionately severe given the extent to which the disqualification would affect LBI's business operations, particularly in the area of underwriting activity. Moreover, we believe the disqualification from regulatory exemptions may have an adverse impact on third parties that have retained LBI and its affiliates in connection with transactions that rely on those exemptions.

4) LBI and its affiliates have strong records of compliance with the securities laws. In addition, LBI voluntarily cooperated with the Division of Enforcement's above-captioned investigation and agreed to pursue a global settlement of this matter at the request of the Division of Enforcement.

5) LBI has agreed to provide written descriptions of its material auction practices and procedures to relevant customers. LBI has also agreed to have its Chief Executive Officer or General Counsel certify in writing to the Commission's staff that the firm has

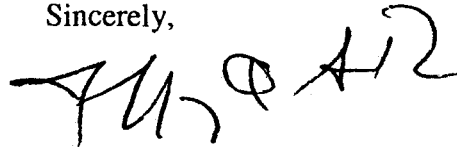
² Certain of the firms, including LBI, agreed to pay penalties of \$1.5 million. One firm agreed to pay \$750,000, and the remaining firms agreed to pay \$125,000.

provided such written descriptions to customers and has implemented policies and procedures that are reasonably designed to prevent and detect future conduct of the type alleged in the Contemplated Order.

In light of the grounds for relief discussed above, we believe that disqualification from the exemptions under Regulation A and Rule 505 of Regulation D is neither in the public interest nor necessary for the protection of investors, and that LBI has shown good cause that relief should be granted. Accordingly, we respectfully urge the Commission to grant a waiver, effective upon entry of the Order, of the disqualification provisions in Regulation A and Rule 505 of Regulation D to the extent they may be applicable to LBI and any of its affiliates as a result of entry of the Order.³

If you have any questions regarding this request, please contact the undersigned at (212) 556-2283.

Sincerely,



Jeffrey Q. Smith

cc (via electronic delivery only):

Kenneth R. Lench, Esq.

Andrew Sporkin, Esq.

Melissa E. Lamb, Esq.

³ We note in support of this request that the Commission has in other instances granted relief under Rule 262 of Regulation A and Rule 505(b)(2)(iii)(C) of Regulation D for similar reasons. *See e.g.*, Wachovia Securities, Inc., SEC No-Action Letter (Feb. 12, 2004); Morgan Stanley & Co., Inc., SEC No-Action Letter (Oct. 31, 2003); Bear, Stearns & Co., Inc., SEC No-Action Letter (Oct. 31, 2003); Lehman Brothers, Inc., SEC No-Action Letter (Oct. 31, 2003); Goldman, Sachs & Co., SEC No-Action Letter (Oct. 31, 2003); Prudential Securities Incorporated, SEC No-Action Letter (pub. avail. July 10, 2003); Credit Suisse First Boston Corporation, SEC No-Action Letter (pub. avail. Jan. 29, 2002); Legg Mason Wood Walker, Inc., SEC No-Action Letter (pub. avail. June 11, 2001); Prudential Securities, Inc., SEC No-Action Letter (pub. avail. Jan. 29, 2001).