

1986 ANNUAL REPORT

LEHMAN

CORPORATION

Board of Directors

Charles F. Barber†	Consultant, formerly Chairman, ASARCO Incorporated
Reginald Brack, Jr.	Executive Vice President, Time Inc.
E. Robert Breech, Jr.†	President, Dealer Operating Control Service Inc.
Fletcher L. Byrom†	Formerly Chairman, Koppers Company, Inc.
William R. Dill†	President, Babson College
Francis L. Fraenkel	Chairman and President; Chairman, Lehman Management Co., Inc.
Edwin A. Geet	Formerly Chairman, International Paper Company
C. Charles Hetzel	Vice Chairman; Vice Chairman, Lehman Management Co., Inc.
Frederic V. Malek	President, Marriott Hotels and Resorts
Adelaide M. Schlafly	Private Investor
Thomas F. Schlafly	Of Counsel to law firm of Peper, Martin, Jensen, Maichel & Hetlage
Brent Scowcroft†	Consultant on National and International Security Affairs

Honorary Directors

John M. Martin	Formerly Chairman, Hercules Incorporated
Gerald H. Trautman	Honorary Chairman, The Greyhound Corporation

† Member Audit Committee

‡ Member Nominating Committee



Francis L. Fraenkel

The Lehman Corporation

55 Water Street
New York, N.Y. 10041

**To the
Shareholders**

February 10, 1987

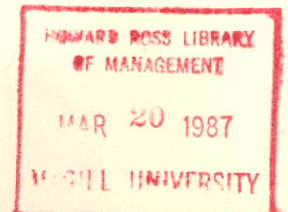
Dear Shareholder:

We are pleased to report that The Lehman Corporation's net asset value per share increased 11.7% in 1986, assuming reinvestment of the distributions from long and short-term capital gains of \$1.505 and from long-term capital gain of \$1.58 per share paid to shareholders on March 4, 1986 and December 24, 1986, respectively. This compares with increases of 22.6% for the unmanaged Dow Jones Industrial Stock Average and 14.6% for the Standard & Poor's Index of 500 Stocks.

The Corporation's total return was 14.8% in 1986, compared to 18.7% for the Standard & Poor's Index and 27.3% for the Dow Jones Average. The Corporation's total return was, far in excess of the 1.1% increase in the Consumer Price Index during the year.

The net asset value of the Corporation's stock stood at \$15.42 per share at December 31, 1986, equivalent to \$18.74 assuming reinvestment of the distributions from capital gains.

On January 20, 1987, the Board of Directors declared a final dividend of \$.04 per share from net investment income earned during 1986 and a final distribution from net realized gains on the sale of investments during 1986 amounting to \$.35 per share, including \$.13 from short-term gains. The distribution from long-term capital gains of \$.22 per share has been designated as a "capital gain dividend" under the Federal Internal Revenue Code. Both dividends are payable March 3, 1987 to shareholders of record February 3, 1987. Shareholders were given the option of receiving the distribution of \$.39 per share in cash or in stock, valued at the lower of the net asset value per share or the average market price on February 17, 1987.



The Corporation intends to repurchase shares of its own stock in the future when it is deemed advisable. We will report all repurchases to shareholders in the quarterly reports of the Corporation. In recent months the Corporation's stock has been priced at a discount or at a small premium and no shares have been repurchased since June 1981.

The Automatic Dividend Reinvestment and Cash Purchase Plan continues to be a popular service and many shareholders are using it to build their holdings in the Corporation. Under the terms of the Plan, you may arrange to reinvest your dividends automatically in additional full and fractional shares. The Plan also allows you to send in cash in any amount over \$25.00 at any time to purchase more shares of The Lehman Corporation. A booklet describing the Plan in detail will be furnished to shareholders upon request.

The Annual Meeting of Shareholders of The Lehman Corporation will be held on April 21, 1987 at the Vista International Hotel, 3 World Trade Center in New York City. We hope those of you for whom the time and place of the Meeting is convenient will attend.

To obtain the current net asset value of your shares or other information about the Corporation, please call (212) 668-8578 from New York State or (800) 221-5350 from other states.

On behalf of the Board of Directors we would like to take this opportunity to welcome our new shareholders and express our sincere appreciation to all of you for your continued interest and support.

Cordially,



Francis L. Fraenkel
Chairman and President



C. Charles Hetzel
Vice Chairman

For information concerning your Lehman Corporation stock account please write The Bank of New York, Stock Transfer Department, 5th Floor, 90 Washington Street, New York, N. Y. 10015, or you may telephone collect (Area Code 212) 530-8055.



*C. Charles Hetzel
Vice Chairman and Portfolio Manager*

The past year was an excellent year for the securities markets as stock prices rose for the fifth consecutive year, attaining new high levels. For the second successive year, stocks advanced sharply despite economic activity being sluggish and corporate profits showing little if any improvement. Last year's stock appreciation was primarily attributed to interest rates again falling to their lowest level in eight years. All other things being equal, lower interest rates usually result in higher equity valuations by increasing the price-earnings multiples investors are willing to pay for stocks.

Stock prices in 1987 are likely to benefit more from increased corporate earnings resulting from a pick-up in the economy than from a decline in interest rates. Economic projections for this year focus on whether weaker consumer spending can be offset by a depreciated dollar-induced decline in the U.S. trade deficit. Prospects for this occurring are not encouraging. Arguments are raised that the consumer is overextended. The U.S. public has been on a buying spree for the last four years accumulating debt in the process. This increased debt stimulated in 1986 not only by tax law changes (particularly the elimination of the deductibility of sales tax in 1987), but by incentive financing of autos at rates consumers could not resist. With respect to the trade balance, there has been only modest progress made in reducing the nation's record deficit despite the nearly two years decline in the exchange rate of the dollar against the currencies of the most other industrialized countries.

Despite these concerns, we are optimistic that there will be an adequate reignition of the economy to support an earnings driven stock market. We believe that concerns about the consumer are neutralized by continued employment growth, by wage gains that will at least keep up with inflation, by reduced energy and tax bills in 1987, and by continued availability of loanable funds arising from home mortgage refinancing.

Similarly, we are more sanguine about an improvement in the trade balance. We believe the lower dollar exchange rates make U.S.



Louis J. Ganz
Executive Vice President

manufacturers (particularly producers of capital goods) competitive in world markets. As a result, the improved trend in trade that is already underway will accelerate.

Economic growth is not anticipated to be so strong as to cause a meaningful pick-up in inflation and not so weak that profits remain lackluster. The tax bill not only encouraged purchases in 1986, it also encouraged deferral of income into 1987 for businesses, as well as individuals. Additionally, tax reform led corporations to write-off and expense as much as the law

would allow in 1986. Reported 1986 profits are, therefore, distorted downward by these incentives, and 1987 results may contrast positively with last year's depressed earnings reports.

Interest rates may see their lows for 1987 early in the year. The press for merger and acquisition related financing before year-end 1986 pushed short-term interest rates higher. In the new year as most of this demand for funds subsides, pressure on short-term rates should ease. The administration's forecast of a sharply lower budget deficit in fiscal 1988 could help the bond market in the first quarter of 1987 before the realities of containing the deficit again become clear, especially if administration officials are preoccupied with containing "Irangate".

A final factor in the positive outlook is the expectation that West Germany and Japan will cut interest rates in the next couple of months specifically after the German election in January. The first quarter of 1987 could produce a positive combination of events for stock prices: an upward revision in corporate earnings prospects concurrent with a decline in interest rates. If these events unfold, it is likely that equity gains would be strongest early this year.

Such an environment should continue to prove constructive for investment in carefully selected common stocks.

The Corporation's investment policy is outlined on the following pages.

Investment Policy

The Lehman Corporation's investment policy has been to concentrate a large portion of its investments in common stocks. Companies whose stocks are selected generally have strong positions in industries with the potential to grow faster than the economy as a whole. Investments are monitored carefully and are changed from time to time into holdings we believe offer more favorable opportunities in the light of changing economic, social and political conditions. The common thread of the Corporation's policy has been to seek out and to hold common stocks of well-managed, favorably situated companies we expect will produce above-average earnings and dividend growth over a period. At the same time, we also look for opportunities in turnaround situations and in securities that appear to be priced substantially lower than their intrinsic value. While current income is not a primary consideration, we are mindful of the income needs of shareholders and income has increased over time.

For the core of our holdings, we look for companies able to increase earnings and dividends at an above-average rate and still retain enough cash to finance future growth in their businesses. The application of this policy is illustrated in the table below. It compares the compound annual rates of growth of earnings and dividends per share of stocks in the Corporation's portfolio at the end of 1986 with those for stocks comprising the Standard & Poor's 500 Index for the five and ten-year periods ended December 31, 1986.

COMPOUND ANNUAL GROWTH RATES

	Periods Ended December 31, 1986			
	5 Years		10 Years	
	Earnings Per Share	Dividends Per Share	Earnings Per Share	Dividends Per Share
Lehman Portfolio*	7.1%	5.3%	7.8%	8.7%
S&P 500	-0.1	5.0	4.4	7.6

* Weighted average growth rate of companies in The Lehman Corporation's portfolio at December 31, 1986.

The experience of investors generally shows the great difficulty of consistently predicting turns in the stock market. There is often the risk that the investor will become too pessimistic about stocks when their prices are depressed and sell near the bottom or become overly optimistic when their prices are high and buy near the top. In our opinion this natural propensity often accounts for poor long-term investment results of many individuals and institutions. For this reason the Corporation has generally maintained a rather fully-invested position in equities rather than attempting to switch back and forth between equities and large reserves of cash, short-term instruments and bonds.

**Investment
Policy**
(continued)

From time to time, the Corporation may invest in public utility common stocks when it believes that their prices are particularly depressed and that the total return (price appreciation plus dividends) from such investments is likely to sufficiently exceed the yield available from money market instruments to warrant the investments.

As a general rule, the Corporation invests for the longer term. We do not trade in and out of individual securities on the basis of intermediate price fluctuations, nor do we attempt to guess the direction of market cycles by continually shifting from a fully invested to a partially invested position. Even so, we reappraise our holdings, take profits or losses from time to time and raise cash to reinvest in newly emerging areas of interest, within the scope of investment policy.

The results of this policy over the years are illustrated in the table below. It compares the Corporation's investment results for each ten-year period since the beginning of 1962, assuming capital gain dividends were reinvested, with the results of the Dow Jones and Standard & Poor's industrial averages.

10-Year Periods	Percentage Gain or Loss (—)		
	S & P Industrials	Dow Jones Industrials	Lehman Corp. Asset Value*
1962-71	48.9%	21.8%	84.0%
1963-72	99.8	56.4	166.4
1964-73	37.7	11.5	85.3
1965-74	- 14.7	- 29.5	12.5
1966-75	2.4	- 12.1	23.4
1967-76	40.1	27.9	48.0
1968-77	- .4	- 8.2	9.7
1969-78	- 5.1	- 14.7	14.0
1970-79	19.2	4.8	50.6
1971-80	53.1	14.9	104.9
1972-81	21.6	- 1.7	52.3
1973-82	19.5	2.6	53.8
1974-83	70.6	47.9	116.9
1975-84	143.7	96.6	196.7
1976-85	132.5	81.4	185.6
1977-86	126.0	88.7	180.4
25-Year Period			
1962-86	256.5	159.3	430.8

*During the period, the market price of the Corporation's stock was sometimes above net asset value and sometimes below; accordingly, the table should not be construed as an indication of the record of a shareholder's investment in the Corporation based on market prices of the stock. Nor should it be construed as a representation of future performance of the Corporation's net asset value. Nevertheless, it is a record of the performance of the Corporation's asset value over a long and statistically meaningful period of time.

**Record of
a Share
of Stock**

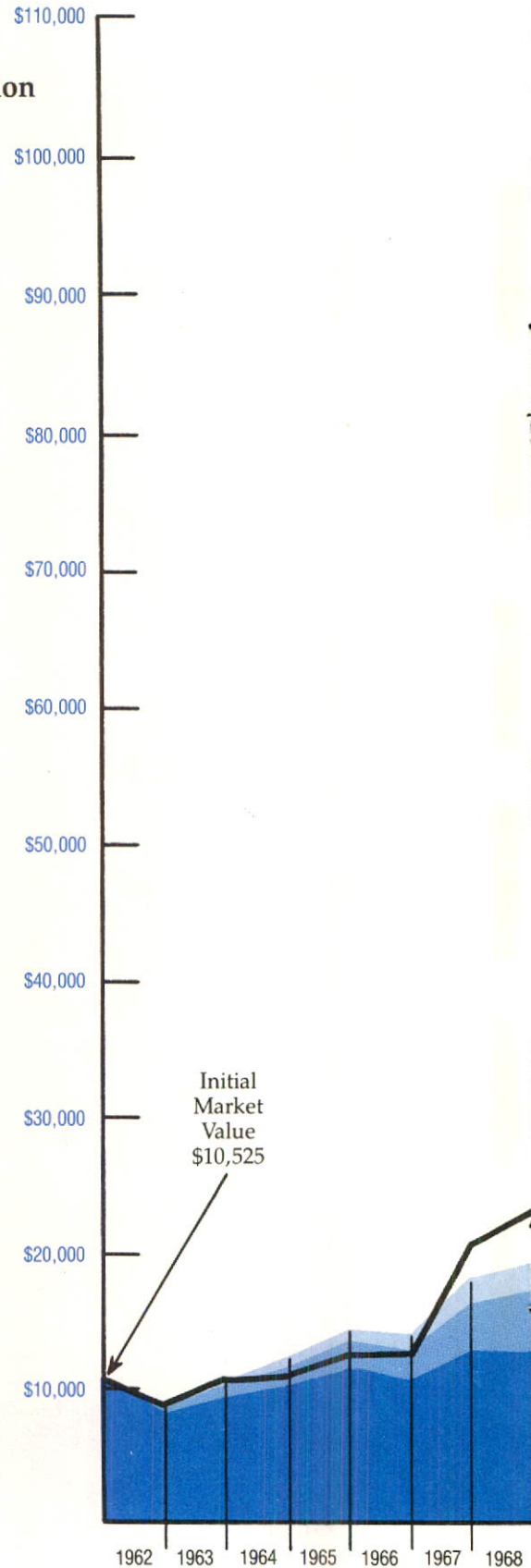
Year	Distributions Declared from		Net Asset Value End of Year	Capital Gain Distributions (Cumulative)	Net Asset Value plus Capital Gain Distributions
	Income	Capital Gain			
1929			\$ 3.81		\$ 3.81
1930	\$.094		3.08		3.08
1931	.119		2.36		2.36
1932	.10		2.43		2.43
1933	.10		3.35		3.35
1934	.10		3.68		3.68
1935	.117		4.64		4.64
1936	.125	\$.146	5.72	\$.146	5.866
1937	.125	.396	3.66	.542	4.202
1938	.106		4.25	.542	4.792
1939	.10		4.09	.542	4.632
1940	.106		3.70	.542	4.242
1941	.15		3.34	.542	3.882
1942	.156		3.69	.542	4.232
1943	.156		4.71	.542	5.252
1944	.181		5.54	.542	6.082
1945	.174	.301	7.21	.843	8.053
1946	.169	.625	6.55	1.468	8.018
1947	.192	.376	6.13	1.844	7.974
1948	.245	.192	5.82	2.036	7.856
1949	.279	.202	6.60	2.238	8.838
1950	.335	.402	7.21	2.640	9.850
1951	.276	.36	8.67	3.000	11.670
1952	.21	.254	9.15	3.254	12.404
1953	.245	.26	8.59	3.514	12.104
1954	.25	.312	11.31	3.826	15.136
1955	.285	.517	12.56	4.343	16.903
1956	.31	.712	12.63	5.055	17.685
1957	.275	.65	10.38	5.705	16.085
1958	.265	.545	13.84	6.250	20.090
1959	.27	.67	14.04	6.920	20.960
1960	.265	.59	13.53	7.510	21.040
1961	.252	.665	15.80	8.175	23.975
1962	.255	.54	12.74	8.715	21.455
1963	.255	.605	14.91	9.320	24.230
1964	.30	.645	16.01	9.965	25.975
1965	.312	.665	18.07	10.630	28.700
1966	.337	.735	16.54	11.365	27.905
1967	.355	.84	19.97	12.205	32.175
1968	.365	1.25	19.69	13.455	33.145
1969	.35	1.35	17.62	14.805	32.425
1970	.305	1.02	15.03	15.825	30.855
1971	.305	.81	17.87	16.635	34.505
1972	.305	1.27	20.47	17.905	38.375
1973	.295	.84	16.50	18.745	35.245
1974	.305	.42	10.77	19.165	29.935
1975	.27	.67	13.15	19.835	32.985
1976	.225†	†	15.08	19.835	34.915
1977	.245	1.01	13.12	20.845	33.965
1978	.34	.45	13.81	21.295	35.105
1979	.42	.91	16.42	22.205	38.625
1980	.55	1.18	18.88	23.385	42.265
1981	.72	2.04	15.56	25.425	40.985
1982	.71	2.01	16.64	27.435	44.075
1983	.625	1.365	18.25	28.800	47.050
1984	.545	2.44	14.67	31.240	45.910
1985	.495	1.085	16.78	32.325	49.105
1986	.515	3.085	15.42	35.410	50.830
Total	\$15.836	\$35.41			

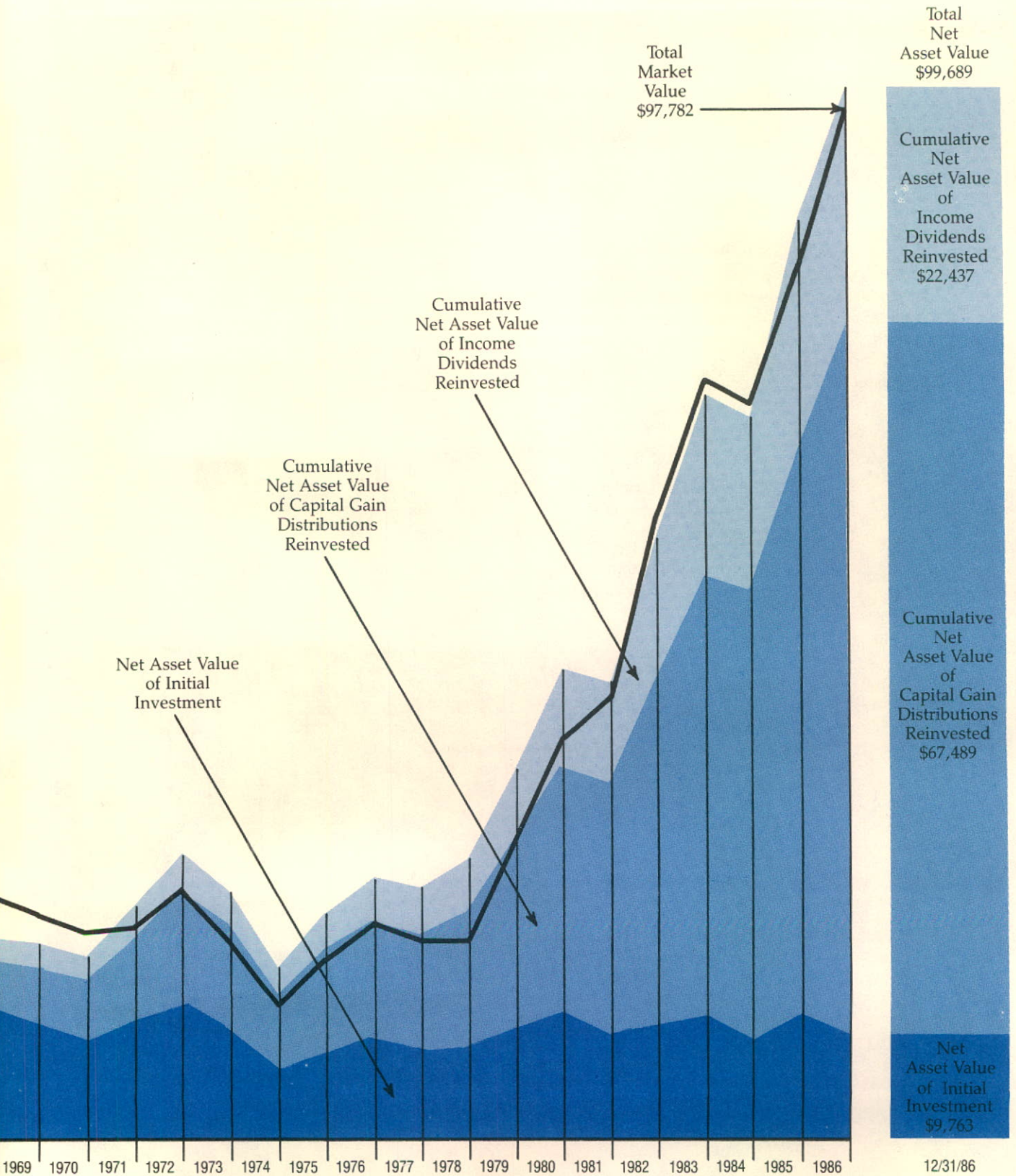
†Capital gain dividend of \$1.01 per share and an income dividend of \$.02 per share for 1976 were declared in January 1977 (Note 5, page 18).

25-Year Record of an Investment in The Lehman Corporation

This chart shows the 25-year record of a \$10,000 investment in stock of The Lehman Corporation at net asset value at the beginning of 1962 assuming all income dividends and capital gain distributions were reinvested at net asset value. During the period, the market price of the stock was sometimes above net asset value and sometimes below; accordingly, the chart should not be construed as an indication of the record of a shareholder's investment in the Corporation based on market prices. Nor should it be construed as a representation of the future performance of the Corporation's net asset value.

End of Year	Net Asset Value of Initial Investment	Cumulative Net Asset Value of		Total Net Asset Value	Total Market Value
		Capital Gain Distributions Reinvested	Income Dividends Reinvested		
1962	\$ 8,066	\$ 349	\$ 164	\$ 8,579	\$ 8,965
1963	9,443	832	375	10,650	10,755
1964	10,133	1,357	617	12,107	11,394
1965	11,440	2,044	942	14,426	12,774
1966	10,472	2,461	1,126	14,059	12,803
1967	12,643	3,696	1,666	18,005	20,850
1968	12,466	4,769	1,972	19,207	23,533
1969	11,155	5,626	2,097	18,878	21,831
1970	9,516	5,935	2,127	17,578	20,027
1971	11,314	8,018	2,893	22,225	20,365
1972	12,960	10,799	3,704	27,463	23,814
1973	10,446	9,878	3,357	23,681	19,017
1974	6,819	7,084	2,569	16,472	12,809
1975	8,325	9,709	3,539	21,573	17,227
1976	9,547	11,134	4,438	25,119	20,614
1977	8,306	11,348	4,320	23,974	19,187
1978	8,743	12,910	5,233	26,886	19,225
1979	10,396	17,517	7,230	35,143	28,091
1980	11,953	23,228	9,810	44,991	38,128
1981	9,851	23,877	9,919	43,647	42,076
1982	10,535	33,082	13,421	57,038	59,557
1983	11,554	41,937	17,174	70,665	72,118
1984	9,288	42,811	16,332	68,431	69,971
1985	10,617	54,761	21,483	86,861	82,873
1986	9,763	67,489	22,437	99,689	97,782





**Largest
Investments**

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1986 are listed below. The total market value of these high quality securities represented 27% of the Corporation's net assets at that date and the same percentage of the aggregate net asset value of each stockholder's Lehman shares. For example, an investment in 1,000 shares of Lehman stock at December 31, 1986 had an aggregate net asset value of \$15,420 of which 27%, or \$4,163, was invested in these ten securities.

	Shares	Market Value
International Business Machines <i>The largest manufacturer of information processing systems.</i>	410,000	\$ 49,200,000
Digital Equipment <i>The largest mini-computer company and manufacturer of information processing systems.</i>	300,000	31,425,000
General Electric <i>A leading producer of diversified electrical products and electronic equipment.</i>	275,000	23,650,000
Philip Morris Companies <i>Leading consumer product company with three operating segments—tobacco, packaged foods and beverage.</i>	320,000	23,000,000
American International Group <i>A leading worldwide insurance company.</i>	320,000	19,560,000
Citicorp <i>Largest United States money center bank.</i>	340,000	18,020,000
ITT <i>A diversified company with major operations in telecommunication products and services and insurance.</i>	312,500	16,679,687
Security Pacific <i>Bank holding company.</i>	465,000	16,100,625
Johnson & Johnson <i>A leading manufacturer of health care products.</i>	240,000	15,750,000
May Department Stores <i>Operates department, discount and shoe stores throughout the U.S.</i>	427,900	15,190,450
Total		<u>\$228,575,762</u>

Major Portfolio Changes

Listed below are the Corporation's major portfolio changes during the three months ended December 31, 1986. Excluded from the list are changes resulting entirely from stock dividends and stock splits.

ADDITIONS

	Shares Increased	Shares Held Dec. 31, 1986
Alcan Aluminium	35,000	215,000
American International Group	20,000	320,000
Apple Computer	123,400	123,400
Caterpillar	80,100	80,100
ITT	47,500	312,500
International Flavors & Fragrances	210,000	210,000
Kaufman & Broad	57,500	264,100
May Department Stores*	227,900	427,900
Panhandle Eastern	295,000	295,000
Penney (J.C.)	100,000	100,000
Perkin-Elmer	290,000	290,000
Pfizer	20,000	165,000
SSMC**	135,000	135,000
St. Paul Companies	35,000	235,000
Southeast Banking	185,000	185,000
Syntex	110,400	110,400
Temple-Inland	82,600	82,600
Union Carbide	321,700	321,700
Zayre	86,200	511,200

REDUCTIONS

	Shares Decreased	Shares Held Dec. 31, 1986
Amerada Hess	154,400	—
American Medical International	220,000	100,000
Associated Dry Goods	132,500	—
Bristol-Myers	15,000	115,000
Coca-Cola	78,300	—
Continental Corporation	153,500	—
Corning-Glass Works	50,000	—
Dayton-Hudson	155,800	—
du Pont (E.I.) de Nemours	85,000	—
Eastman Kodak	60,000	—
Federated Department Stores	75,000	—
GTE	45,000	255,000
General Dynamics	18,300	186,000
General Electric	55,000	275,000
General Motors	160,000	—
Georgia-Pacific	70,000	87,100
Hewlett-Packard	161,800	—
Hospital Corporation of America	160,000	125,000
Johnson & Johnson	15,000	240,000
K mart	25,000	300,000
Lockheed	122,500	227,500
Morton Thiokol	72,400	137,600
NYNEX	25,000	—
National Medical Enterprises	75,000	—
New York State Electric & Gas	250,000	—
Norwest	165,000	—
Pacific Telesis	165,000	—
Ryder System	88,300	350,000
Tektronix	26,000	100,000
Tenneco	25,000	—
Varian Associates	94,600	—

*Received in exchange for Associated Dry Goods.

**Received 35,000 shares from Singer.

**Portfolio of
Investments**

December 31, 1986

COMMON STOCKS

87.0% of NET ASSETS

Shares		Cost	Value(a)
Basic Industries 9.4%			
215,000	Alcan Aluminium	\$ 7,148,996	\$ 6,073,750
139,700	Ethyl	2,425,385	2,619,375
275,000	General Electric	11,310,150	23,650,000
87,100	Georgia-Pacific	2,593,644	3,222,700
140,000	Grace (W.R.)	6,742,321	6,772,500
312,500	ITT	12,872,737	16,679,687
137,600	Morton Thiokol	4,883,081	5,108,400
80,000	Penn Central	4,373,027	4,280,000
82,600	Temple-Inland	4,579,417	4,728,850
321,700	Union Carbide	7,238,250	7,238,250
		<u>64,167,008</u>	<u>80,373,512</u>
Consumer Products & Services 7.1%			
210,000	International Flavors & Fragrances	8,251,565	7,822,500
215,000	Kraft	8,599,832	10,185,625
200,000	MCA	8,297,580	7,675,000
158,400	McGraw-Hill	7,354,429	8,652,600
320,000	Philip Morris Companies	14,706,117	23,000,000
53,750	Premark International	783,888	1,054,844
135,000	SSMC (e)	1,950,659	1,957,500
		<u>49,944,070</u>	<u>60,348,069</u>
Defense Electronics & Aerospace 6.7%			
242,000	E-Systems	7,671,226	7,229,750
186,000	General Dynamics	11,256,053	12,601,500
227,500	Lockheed	10,820,994	11,403,438
140,000	Singer	7,174,186	5,232,500
250,000	United Technologies	10,101,525	11,500,000
290,000	Watkins-Johnson	4,280,402	9,497,500
		<u>51,304,386</u>	<u>57,464,688</u>
Electronics 3.4%			
226,700	EG&G	7,430,607	6,404,275
412,500	GenRad (e)	9,966,927	2,990,625
320,000	Intergraph (e)	7,572,380	5,440,000
290,000	Perkin-Elmer	8,108,793	7,395,000
100,000	Tektronix	6,548,114	6,800,000
		<u>39,626,821</u>	<u>29,029,900</u>

For explanation of notes (a) through (e), see page 15.

**COMMON
STOCKS**

Shares		Cost	Value(a)
Energy 3.6%			
400	Gas Properties (100% owned) .	\$ 40,000	\$ 664,000(b)
450,000	Magma Power (e)	1,414,237	6,356,250
450,000	Noble Affiliates	6,086,983	5,006,250
295,000	Panhandle Eastern	7,953,338	8,186,250
240,000	Questar	6,713,734	8,940,000
	Oil Royalty Interests	—	1,252,000(b)
		<u>22,208,292</u>	<u>30,404,750</u>
Financial Services 13.5%			
320,000	American International Group.	11,178,581	19,560,000
340,000	Citicorp	12,918,207	18,020,000
367,400	Farmers Group	6,035,633	14,236,750
291,900	First Chicago	6,653,675	8,355,638
168,000	General Re	9,642,498	9,324,000
264,100	Kaufman & Broad	5,163,700	4,753,800
235,000	St. Paul Companies	9,602,020	9,458,750
220,000	Salomon Inc.	10,535,800	8,442,500
465,000	Security Pacific	8,582,154	16,100,625
185,000	Southeast Banking	<u>7,170,694</u>	<u>6,960,625</u>
		87,482,962	115,212,688
Food & Beverage 2.4%			
175,000	McDonald's	3,200,826	10,653,125
370,000	PepsiCo	<u>9,957,152</u>	<u>9,620,000</u>
		13,157,978	20,273,125
Health Care 10.0%			
100,000	American Medical International	2,222,920	1,475,000
683,000	Beverly Enterprises	12,845,843	11,184,125
115,000	Bristol-Myers	2,513,977	9,501,875
125,000	Hospital Corporation of America	3,894,501	3,796,875
240,000	Johnson & Johnson	9,668,466	15,750,000
165,000	Pfizer	8,316,301	10,065,000
200,000	Shared Medical Systems	6,787,061	8,100,000
72,300	SmithKline Beckman	6,527,075	6,877,537
110,400	Syntex	5,980,911	6,361,800
200,000	Warner-Lambert	<u>7,202,442</u>	<u>11,725,000</u>
		65,959,497	84,837,212

**COMMON
STOCKS**

Shares		Cost	Value(a)
Machinery & Industrial Equipment 0.4%			
80,100	Caterpillar	\$ 3,000,923	\$ 3,214,013
		3,000,923	3,214,013
Merchandising 9.3%			
300,000	K mart	9,528,384	13,162,500
427,900	May Department Stores	8,830,375	15,190,450
150,000	Morse Shoe	4,836,729	4,650,000
100,000	Penney (J.C.)	7,251,840	7,225,000
380,000	Sears Roebuck	13,473,536	15,105,000
245,000	Wal-Mart Stores	449,317	11,392,500
511,200	Zayre	13,570,161	12,268,800
		<u>57,940,342</u>	<u>78,994,250</u>
Office Equipment 13.2%			
123,400	Apple Computer (e)	4,331,458	4,997,700
348,000	Control Data (e)	7,962,799	9,178,500
300,000	Digital Equipment (e)	13,400,935	31,425,000
410,000	International Business Machines	9,404,072	49,200,000
335,900	NCR	5,006,647	14,821,587
50,000	Xerox	2,592,997	3,000,000
		<u>42,698,908</u>	<u>112,622,787</u>
Transportation 3.7%			
187,500	Piedmont Aviation	6,295,540	8,531,250
350,000	Ryder System	3,143,521	11,681,250
210,000	UAL	10,638,864	10,972,500
		<u>20,077,925</u>	<u>31,185,000</u>
Utilities 4.3%			
255,000	GTE	11,039,796	14,885,625
904,800	Northern Indiana Public Service (e)	9,045,885	10,631,400
100,000	Southwestern Bell	8,616,178	11,225,000
		<u>28,701,859</u>	<u>36,742,025</u>
	Total Common Stocks	<u>\$546,270,971(d)</u>	<u>\$740,702,019</u>

**CORPORATE
SHORT-TERM
NOTES 13.7%
of NET ASSETS**

Principal Amount (thousands)		Value(c)
\$ 17,083	Barclays American due 1/8/87-1/9/87	\$ 17,143,086
1,082	Chevron Oil Finance due 1/14/87	1,084,900
35,554	Ford Motor Credit due 1/2/87-1/28/87	35,629,420
9,342	General Electric Credit due 1/13/87-1/15/87	9,367,542
28,240	General Motors Acceptance due 1/16/87-2/4/87 . .	28,267,378
13,115	Household Finance due 1/5/87-1/22/87	13,156,623
11,612	Westinghouse Credit due 1/6/87-1/7/87	<u>11,637,772</u>
	Total Corporate Short-Term Notes	<u>\$116,286,721</u>

Notes:

- (a) Unless otherwise indicated, market values are based on the last reported sale on December 31, 1986, or, if no sale was reported and in the case of over-the-counter quotations, on the bid price at the close of business on that day.
- (b) Fair value in the opinion of directors—not currently quoted.
- (c) Cost plus discount or interest earned, which approximates market value. The annualized "yield to maturity" as of dates of purchase of these securities ranged from 5.98% to 10.77%.
- (d) Average cost of investments. Identified cost for Federal income tax purposes was \$527,536,575 for common stocks.
- (e) Non-income producing security.

**Statement of
Operations**

Investment Income

	Year 1986	Year 1985
Income:		
Dividends (Note 2)	\$ 21,738,244	\$ 19,906,904
Interest	7,240,279	8,574,190
Oil Royalties	513,461	596,654
	<u>29,491,984</u>	<u>29,077,748</u>
Expenses:		
Management Fee (Note 6)	2,947,192	2,656,234
Shareholder Services	272,861	231,112
Shareholder Meeting & Reports	219,788	210,709
Directors' Fees (Note 7)	96,038	97,451
Custody of Securities	79,989	46,654
Legal & Auditing Fees	74,551	65,172
Stock Certificates & Listing Fees	54,224	66,792
Miscellaneous	43,021	33,159
	<u>3,787,664</u>	<u>3,407,283</u>
Net Investment Income (Note 4)	<u>25,704,320</u>	<u>25,670,465</u>
Realized Gain on Investments:		
Proceeds from Securities Sold (Note 8)	493,787,269	363,586,083
Cost of Securities Sold	<u>387,902,508</u>	<u>282,360,960</u>
Net Realized Gain on Investments	<u>105,884,761</u>	<u>81,225,123</u>
Net Unrealized Appreciation of Investments:		
Beginning of Year	208,084,289	138,093,732
End of Year	<u>194,431,048</u>	<u>208,084,289</u>
Increase [Decrease] in Net Unrealized Appreciation	<u>[13,653,241]</u>	<u>69,990,557</u>
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 3 & 4)	<u>92,231,520</u>	<u>151,215,680</u>
Net Increase in Net Assets Resulting from Operations	<u>\$117,935,840</u>	<u>\$176,886,145</u>

See Notes to Financial Statements on pages 18 and 19.

**Statement of
Assets and
Liabilities**

	December 31,	
	1986	1985
Assets		
Investments in Stocks (average cost 1986— \$546,270,971; 1985—\$486,093,686)	\$740,702,019	\$694,177,975
Corporate Short-Term Notes	116,286,721	115,310,064
Cash	1,320,481	2,243,920
Receivable for Securities Sold	629,279	8,213,866
Dividends Receivable	1,776,827	1,952,965
Total Assets	<u>860,715,327</u>	<u>821,898,790</u>
Liabilities		
Payable for Securities Purchased	8,106,785	2,898,546
Management Fee Payable	739,017	678,493
Accrued Expenses	104,900	71,158
Total Liabilities	<u>8,950,702</u>	<u>3,648,197</u>
Net Assets		
Paid-in Capital	643,524,418	545,997,917
Undistributed Net Investment Income	14,324,547	15,151,154
Undistributed Net Realized Gain on Investments	(515,388)	49,017,233
Net Unrealized Appreciation	194,431,048	208,084,289
Net Assets	<u>\$851,764,625</u>	<u>\$818,250,593</u>
Shares of Capital Stock \$1.00 par value, Authorized 75,000,000; Outstanding	55,235,443	48,766,788
Net Asset Value Per Share	\$15.42	\$16.78

**Statement of
Changes in
Net Assets**

	Year 1986	Year 1985
Increase in Net Assets		
Operations:		
Net Investment Income	\$ 25,704,320	\$ 25,670,465
Net Realized Gain on Investments	105,884,761	81,225,123
Increase [Decrease] in Net Unrealized Appreciation	[13,653,241]	69,990,557
Net Increase from Operations	<u>117,935,840</u>	<u>176,886,145</u>
Dividends to Shareholders From:		
Net Investment Income	[26,530,926]	[24,046,815]
Net Realized Gain from Investment Transactions	[155,417,383]	[50,675,803]
	<u>[181,948,309]</u>	<u>[74,722,618]</u>
Value of Shares Issued in Payment of Dividends		
	<u>97,526,501</u>	<u>30,791,026</u>
Total Increase in Net Assets	33,514,032	132,954,553
Net Assets at Beginning of Year	<u>818,250,593</u>	<u>685,296,040</u>
Net Assets at End of Year	<u>\$851,764,625</u>	<u>\$818,250,593</u>

See Notes to Financial Statements on pages 18 and 19.

**Notes to
Financial
Statements**

(1) The Corporation is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end investment company of the management type.

(2) Investments are carried at market or fair value and corporate short-term notes are carried at cost plus discount or interest earned (see notes, page 15). Security transactions are recorded on the trade date. Dividend income and dividends payable are recorded on the "ex-dividend" date. A total of \$41,000 was received in 1986 on stocks of companies more than 5% of whose outstanding voting securities were owned by the Corporation.

(3) For accounting purposes, gains or losses on sales of securities are based on average cost. For Federal income tax purposes gains or losses are determined by identifying the cost of securities sold. On this identified cost basis the net realized gain for the year ended December 31, 1986 amounted to \$101,186,663. As of December 31, 1986, the total unrealized appreciation and depreciation, based on cost for Federal income tax purposes, amounted to \$235,183,823 and \$22,018,379, respectively, resulting in net unrealized appreciation of \$213,165,444.

(4) No allowance has been made for Federal income taxes on net investment income, net realized gain or unrealized appreciation since it is the policy of the Corporation to comply with the sections of the Internal Revenue Code applicable to regulated investment companies and to make distributions from income and capital gain sufficient to relieve it from substantially all Federal income taxes.

(5) The Board of Directors declares income dividends after the close of each calendar quarter and distributions from realized gains after the close of the year. In 1986 an initial distribution from net realized gain in the amount of \$1.58 per share was declared prior to the close of the year. On January 20, 1987 the Board of Directors declared for the year 1986 a final income dividend of \$.04 per share and a final distribution from net realized gain of \$.35 per share, which includes \$.13 per share from net short-term gains.

(6) The management agreement between the Corporation and Lehman Management Co., Inc. ("Lemco"), provides that, subject to the supervision of the Board of Directors of the Corporation, Lemco shall manage the investment operations of the Corporation, furnish the Corporation with office space and pay the compensation of its officers and employees. The management fee for these services is payable quarterly and is based on the following annual percentages of the Corporation's average daily net assets: first \$25 million—none; next \$25 million—.50%; next \$150 million—.30%; next \$250 million—.25%; excess over \$750 million—.20%. The management fee payable at December 31, 1986 amounted to \$739,017.

Supplementary Information

(7) During the year 1986, directors, other than those who were officers or employees of the Corporation or Lehman Management Co., Inc., were paid fees of \$96,038 for attendance at Directors', Audit and Nominating Committee meetings.

(8) The cost of securities purchased and proceeds from securities sold during the year 1986, other than corporate short-term notes, aggregated \$447,537,293 and \$493,787,269, respectively.

(9) Capital share transactions included shares issued in payment of dividends and distributions of 6,468,655, for the year ended December 31, 1986 and 2,060,979 for the year ended December 31, 1985.

Selected data per share of capital stock outstanding throughout each period:

	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
Investment Income	\$.57	\$.60	\$.56	\$.64	\$.69
Expenses	[.07]	[.07]	[.06]	[.08]	[.07]
Net Investment Income50	.53	.50	.56	.62
Dividends from Investment Income	[.515]	[.495]	[.545]	[.625]	[.71]
Net Realized Gain, Change in Net Unrealized Appreciation & Capital Share Transactions	1.74	3.16	[1.095]	3.04	3.18
Distributions from Realized Gain*	[3.085]	[1.085]	[2.44]	[1.365]	[2.01]
Net Asset Value Beginning of Year	<u>16.78</u>	<u>14.67</u>	<u>18.25</u>	<u>16.64</u>	<u>15.56</u>
Net Asset Value End of Year	<u>\$15.42</u>	<u>\$16.78</u>	<u>\$14.67</u>	<u>\$18.25</u>	<u>\$16.64</u>
Shares Outstanding End of Year (thousands)	55,235	48,767	46,706	42,528	40,434
Ratio of Expenses to Average Net Assets43%	.47%	.46%	.45%	.51%
Portfolio Turnover Rate	58%	52%	42%	42%	36%

*Includes net short-term capital gain of \$.02 per share in 1986, \$.035 in 1985, \$.38 in 1984, and \$.045 per share in 1983.

**Quarterly
Financial
Information**

**Report of
Independent
Accountants**

Summary of quarterly results of operations for the past two years (unaudited):

Amounts in Thousands and Per Share
Three Months Ended

	March 31, 1985		June 30, 1985		September 30, 1985		December 31, 1985	
Net Investment								
Income	\$ 6,595	\$.13	\$ 6,245	\$.13	\$ 6,200	\$.13	\$ 6,630	\$.14
Net Realized Gain & Change in Net Unrealized Appreciation . . .	\$ 44,304	\$.91	\$ 32,213	\$.66	\$ [35,919]	\$ [.74]	\$ 110,618	\$ 2.27

	March 31, 1986		June 30, 1986		September 30, 1986		December 31, 1986	
Net Investment								
Income	\$ 6,503	\$.13	\$ 6,157	\$.12	\$ 6,578	\$.13	\$ 6,466	\$.12
Net Realized Gain & Change in Net Unrealized Appreciation . . .	\$ 87,635	\$ 1.69	\$ 51,415	\$.99	\$ [71,197]	\$ [1.37]	\$ 24,379	\$.47

To the Board of Directors and Stockholders of
The Lehman Corporation:

In our opinion, the accompanying Statement of Assets and Liabilities (including the Portfolio of Investments at December 31, 1986), and the related Statements of Operations and of Changes in Net Assets and the Supplementary Information present fairly the financial position of The Lehman Corporation at December 31, 1986 and 1985, the results of its operations and the changes in its net assets for the years then ended and the supplementary information for each of the five years in the period ended December 31, 1986, all in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements and the supplementary information were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of securities owned at December 31, 1986 and 1985 by correspondence with the custodian and brokers.

PRICE WATERHOUSE

153 East 53rd Street
New York, N.Y.
January 20, 1987

Officers

Francis L. Fraenkel	Chairman and President
C. Charles Hetzel	Vice Chairman
Louis J. Ganz	Executive Vice President
Martin L. Roberts	Vice President
Anthony Forlano	Treasurer
Mary R. Brown	Secretary
Edward J. O'Hara	Assistant Secretary & Assistant Treasurer

Lehman Management Co., Inc. Investment Adviser
New York, N.Y.

Simpson Thacher & Bartlett Legal Counsel
New York, N.Y.

Price Waterhouse Independent Accountants
New York, N.Y.

The Bank of New York Custodian, Transfer and Dividend Paying Agent
New York, N.Y.

**The
Lehman
Corporation**

55 Water Street
New York, N. Y. 10041