

The Lehman Corporation



Annual Report
1987

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.
- Clifford M. Kirtland, Jr.** Formerly Chairman, Cox Communications Inc.
- 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

**To the
Shareholders**



*Francis L. Fraenkel
Chairman and President*

The Lehman Corporation

55 Water Street
New York, N.Y. 10041

February 10, 1988

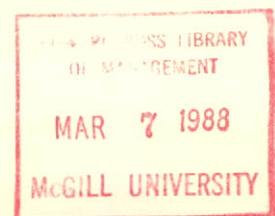
Dear Shareholder:

The Lehman Corporation's net asset value per share decreased 0.3% in 1987, assuming reinvestment of the distributions from long- and short-term capital gain of \$.35 per share paid to shareholders on March 3, 1987 and \$1.53 per share paid to shareholders on December 29, 1987. This compares with increases of 2.3% for the unmanaged Dow Jones Industrial Stock Average and 2.0% for the Standard & Poor's Index of 500 Stocks.

The Corporation's total return was 2.9% in 1987, compared to 4.9% for the Standard & Poor's Index and 5.6% for the Dow Jones Average.

The net asset value of the Corporation's stock stood at \$13.26 per share at December 31, 1987, equivalent to \$15.38 assuming reinvestment of the distributions from capital gain.

On January 19, 1988, the Board of Directors declared a final dividend of \$.015 per share from net investment income earned during 1987 and a final distribution from net realized gain on the sale of investments during 1987 amounting to \$.145 per share, including \$.01 from short-term gain. The distribution from long-term capital gain of \$.135 per share has been designated as a "capital gain dividend" under the Internal Revenue Code. Both dividends are payable February 17, 1988 to shareholders of record February 2, 1988.



The Corporation intends to repurchase shares of its own stock in the future at such times and prices and in such amounts as 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 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 19, 1988 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 (212) 530-8051 from New York City or (800) 524-4458 from outside New York City.



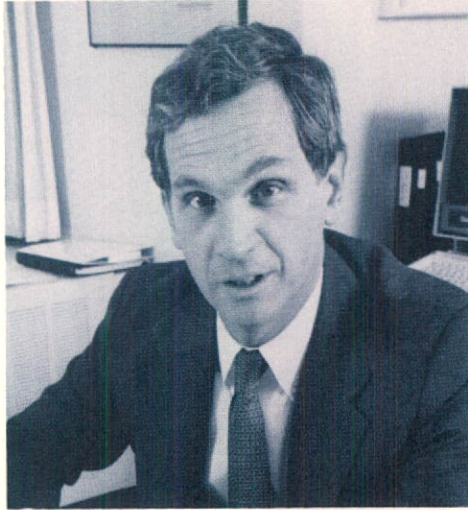
*C. Charles Hetzel
Vice Chairman and Portfolio Manager*

The Dow Jones Industrials eked out a minor gain last year as did the Standard & Poor's indices. The broader the stock market average, however, the poorer the investment returns. For example, the New York Stock Exchange composite index in 1987 yielded slightly negative results while the more comprehensive NASDAQ index produced even worse performance. Despite the appearance of a lackluster stock market, 1987 was an extraordinary market year for equity investors. The stock market soared nearly 40% through mid-August. At the same time, interest rates were rising more than 2%. The rise in equity prices

extended the duration of the bull market to over five years and gains in the popular averages to over 250%. During the spring and summer, stock prices exceeded historic valuation norms. Dividend and earnings yields on stocks were driven way below the rising yields available in the bond market. In late summer, the stock market gradually began losing ground. Then, in a record-breaking collapse in October, stock prices plunged not only in the United States, but throughout the industrialized world. In the U.S., gains for the year were wiped out when, in a ten-day period ending October 20, the Standard & Poor's 500 Index tumbled 31.5%. A partial recovery in December allowed the more popular indices to finish 1988 with slim gains for the year.

The impact of the wealth effects, and more particularly the confidence effects, of a global stock market decline of October's magnitude are highly uncertain. All the implications of the stock market plunge are far from apparent yet. The initial response outside the financial markets was one of business as usual. Consumer confidence was not devastated. Some capital spending plans were deferred, but few cancelled. A lower dollar and a weaker demand for imports were expected to reverse the trade deficit more quickly than otherwise would have occurred. Many regions of the U.S. already have undergone a sort of rolling recession in recent years—the industrial Midwest, the energy belt, the farmbelt—and now some commentators maintain that it simply may be the turn for the financial services industry. However, this view assumes that the trauma of the crash does not generate a consumer retrenchment from what are historically high debt levels.

Despite uncertainties, the new year provides a clean slate to appraise the economic, political, and business outlook. What is clear is the stock market decline will retard economic activity. Moreover, the U.S. economy has entered its sixth year of expansion, a peacetime record. Signs of the



Louis J. Ganz
Executive Vice President

expansion's age are evident, particularly in the consumer sector. Until recently, consumer spending had been the most important element fueling the gains in economic activity. However, consumer outlays have grown more rapidly than consumer income, resulting in a decline in the savings rate and the rapid accumulation of debt. The household sector cannot be counted to contribute much to future growth. The same may be said of the government sector where continued large budget deficits have left the government little choice but to accept a more restrictive fiscal policy. This is the case despite the potential weakness in the economy

and 1988 being a Presidential election year. Needless to say, the political costs to the Republican Party would be high if a recession were to occur before election day.

Hopes for continued economic growth are therefore largely dependent on continued gains by industrial America both at home and abroad. This sector of the economy suffered when the dollar was riding high in the mid-1980's and now is a major beneficiary of the nearly three-year dollar decline. U.S. manufacturers now have price advantages in world markets. Producers of industrial commodities and capital goods are showing strong export gains as well as beginning to regain domestic market share from foreign manufacturers. Further dollar declines are probably not necessary to sustain industrial sector gains.

We are more concerned about the economy in 1989 than 1988. Washington has yet to confront the fiscal deficit squarely. New efforts to cut the budget deficit will probably have to wait for a new administration. Then, in 1989, with a fragile economy, the policy choices will be difficult. Meanwhile, in 1988, although consumers are down, they are not out. Consumer spending in response to lower tax rates and deferred income will give individuals the wherewithal to at least contribute marginally to economic growth, particularly in the first half of the year. The trade balance should improve at an accelerating rate as the year progresses. The swing in trade should offset slowing gains in consumer spending and keep the economy at an expanding rate in 1988. Profit growth will continue and inflation will remain low.

We anticipate a very volatile stock market over the next 12 months. The break in prices has made stocks moderately attractive compared to other financial asset alternatives but less attractive than they were this time last year. We do not expect to see stock prices above last August's highs.

Investment Policy

Besides valuation constraints, the most significant limit on higher stock prices is reduced demand for equities. There will be diminished leveraged buyout and merger activity, less individual investor interest, and a declining level of equity investment by pension funds. Foreign investment in equities should also decline despite an increase in direct investment of foreign companies seeking control of U.S. firms. We are also wary of two other potential developments, either of which could lead to an extremely negative environment for share prices. They are a breakdown of international cooperation on trade and dollar stabilization and the Federal Reserve tightening monetary policy in defense of the dollar.

We believe that security selection will be extremely important in an anticipated volatile market environment for 1988. Currently, many consumer stocks are priced as though consumption will stop completely. This has created attractive opportunities in retailing and non-durable goods. Selected financial stocks, battered by recent bad news, also represent good value. Since the equity market has already priced capital goods stocks and industrial commodity producers' stocks to reflect gains derived from the dollar's decline, we believe investment in certain technology issues is the best way to take advantage of the depreciated dollar and the revival in U.S. manufacturing.

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 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 1963, 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*
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
1978-87	173.0	133.3	195.4
25-Year Period			
1963-87	333.1	197.3	520.5

*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**

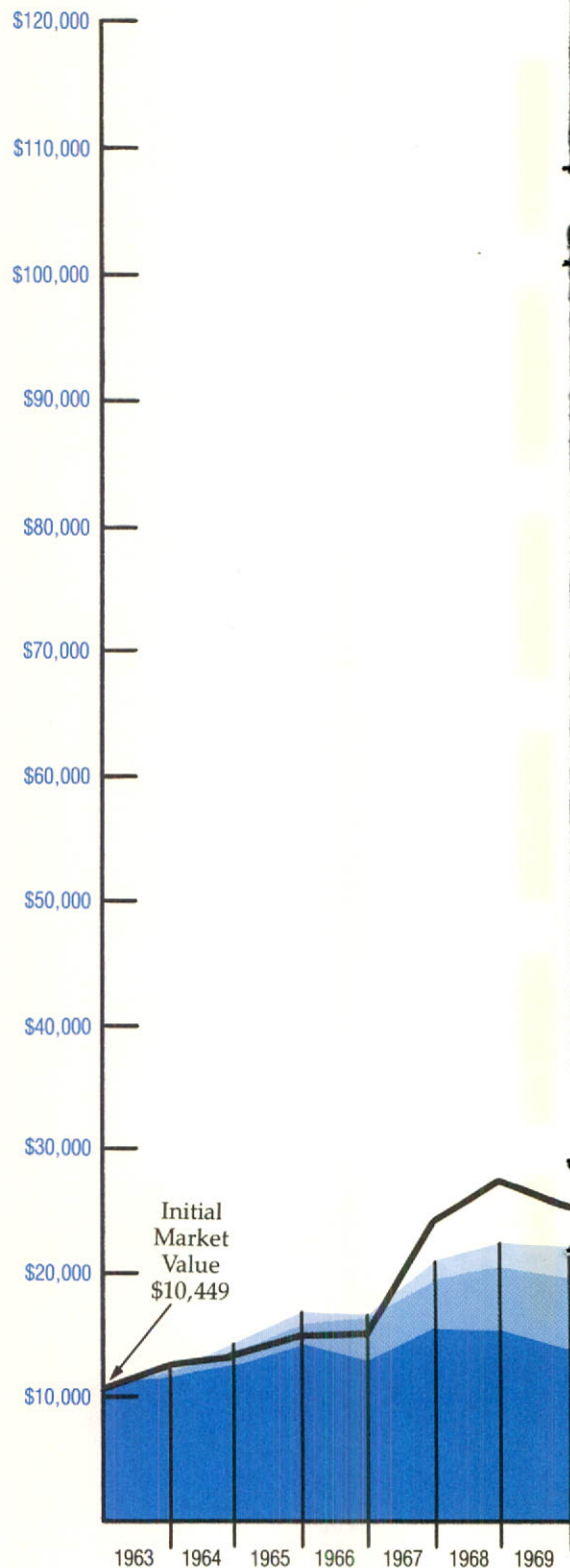
Year	Distributions Declared from		Net Asset Value End of Year	Capital Gain Distributions (Cumulative)	Net Asset Value plus Capital Gain Distributions
	Income	Capital Gain			
1929			\$ 3.81		\$ 3.81
1930	\$.094		3.08		3.08
1931	.119		2.36		2.36
1932	.10		2.43		2.43
1933	.10		3.35		3.35
1934	.10		3.68		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
1987	.49	1.88	13.26	37.290	50.550
Total	\$16.326	\$37.290			

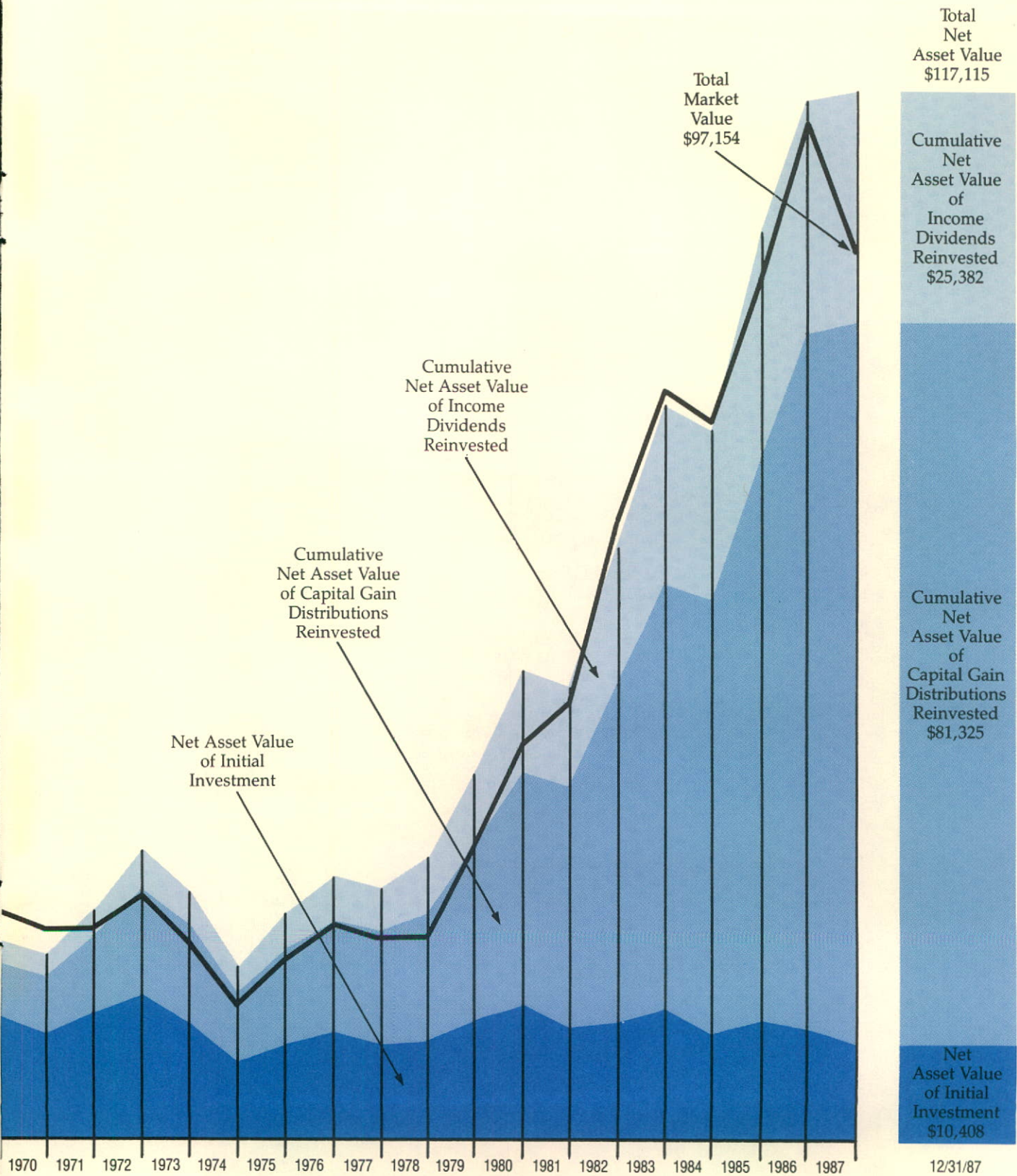
†Capital gain dividend of \$1.01 per share and an income dividend of \$.02 per share for 1976 were declared in January 1977 (Note 5, page 18).

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 1963 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		
1963	\$11,707	\$ 494	\$ 212	\$12,413	\$12,536
1964	12,563	1,071	478	14,112	13,281
1965	14,184	1,806	827	16,817	14,890
1966	12,983	2,340	1,064	16,387	14,923
1967	15,675	3,671	1,642	20,988	24,303
1968	15,455	4,930	2,002	22,387	27,430
1969	13,830	5,996	2,180	22,006	25,446
1970	11,797	6,438	2,253	20,488	23,344
1971	14,027	8,775	3,103	25,905	23,738
1972	16,068	11,934	4,010	32,012	27,758
1973	12,951	10,987	3,665	27,603	22,166
1974	8,454	7,913	2,832	19,199	14,930
1975	10,322	10,897	3,928	25,147	20,079
1976	11,837	12,497	4,946	29,280	24,028
1977	10,298	12,808	4,838	27,944	22,365
1978	10,840	14,607	5,892	31,339	22,409
1979	12,889	19,894	8,181	40,964	32,743
1980	14,819	26,472	11,150	52,441	44,442
1981	12,214	27,334	11,327	50,875	49,044
1982	13,061	38,029	15,393	66,483	69,420
1983	14,325	48,313	19,745	82,383	84,076
1984	11,515	49,446	18,818	79,779	81,573
1985	13,171	63,348	24,806	101,325	96,615
1986	12,104	78,191	25,924	116,219	113,996
1987	10,408	81,325	25,382	117,115	97,154





Total Net Asset Value \$117,115

Total Market Value \$97,154

Cumulative Net Asset Value of Income Dividends Reinvested \$25,382

Cumulative Net Asset Value of Income Dividends Reinvested

Cumulative Net Asset Value of Capital Gain Distributions Reinvested

Net Asset Value of Initial Investment

Cumulative Net Asset Value of Capital Gain Distributions Reinvested \$81,325

Net Asset Value of Initial Investment \$10,408

12/31/87

**Largest
Investments**

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1987 are listed below. The total market value of these high-quality securities represented 29% 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, 1987 had an aggregate net asset value of \$13,260, of which 29%, or \$3,845, was invested in these ten securities.

	Shares	Market Value
International Business Machines <i>The largest manufacturer of information processing systems.</i>	378,000	\$ 43,659,000
Digital Equipment <i>The largest mini-computer company and manufacturer of information processing systems.</i>	275,000	37,125,000
Philip Morris Companies <i>Leading consumer product company with three operating segments—tobacco, packaged foods and beverage.</i>	317,500	27,106,562
General Electric <i>A leading producer of diversified electrical products and electronic equipment.</i>	520,000	22,945,000
American International Group <i>A leading worldwide insurance company.</i>	329,800	19,788,000
ITT <i>A diversified company with major operations in telecommunication products and services and insurance.</i>	415,000	18,467,500
Farmers Group <i>Leading insurance holding company with operations in property, casualty and life insurance.</i>	400,000	16,100,000
Johnson & Johnson <i>A leading manufacturer of health care products.</i>	210,000	15,723,750
Unisys <i>A major manufacturer of business machines.</i>	438,100	14,731,112
K mart <i>Nation's second-largest retailer.</i>	482,000	14,339,500
Total		<u><u>\$229,985,424</u></u>

Major Portfolio Changes

ADDITIONS

Listed below are the Corporation's major portfolio changes during the three months ended December 31, 1987. Excluded from the list are changes resulting entirely from stock dividends and stock splits.

	Shares Increased	Shares Held Dec. 31, 1987
Alcan Aluminium	267,000	267,000
Amerada Hess	87,200	352,200
American Electric Power	350,000	350,000
Bank of Boston	95,000	460,000
Citicorp	321,000	321,000
Conrail	310,000	310,000
Control Data	78,300	442,800
Farmers Group	30,000	400,000
General Electric	20,000	520,000
Halliburton	305,000	305,000
Hospital Corporation of America	116,700	116,700
ITT	67,500	415,000
International Business Machines	28,000	378,000
Johnson & Johnson	30,000	210,000
Loral	120,000	305,000
May Department Stores	155,000	460,000
Melville Shoe	90,000	255,000
Morgan (J.P.)	35,000	285,000
Morton Thiokol	52,400	216,100
Pacific Telesis	50,000	435,000
Penn Central	75,000	175,000
Perkin-Elmer	110,000	355,000
Pfizer	75,000	272,000
Philip Morris Companies	15,000	317,500
Schlumberger	303,300	303,300
Texas Eastern	140,600	392,800
Texas Instruments	120,000	120,000
Unisys	153,100	438,100
United Technologies	40,000	290,000
Weyerhaeuser	266,700	266,700

REDUCTIONS

	Shares Decreased	Shares Held Dec. 31, 1987
Alaska Air Group	80,000	240,000
Beverly Enterprises	125,000	397,000
Digital Equipment	10,000	275,000
EG&G	190,000	—
E-Systems	150,700	39,300
Ethyl	205,000	—
First Chicago	145,900	139,600
GTE	267,500	115,000
Grace (W.R.)	65,000	—
Gulf & Western Industries	95,000	—
Intergraph	155,000	65,000
International Flavors & Fragrances	142,500	—
Kaufman & Broad	150,000	125,000
Kraft	192,500	—
Lilly (Eli)	57,100	50,400
McDonald's	32,500	230,000
McGraw-Hill	90,000	—
Measurex	163,200	—
Monsanto	110,000	—
NCR	186,000	49,000
Outboard Marine	89,000	136,000
Panhandle Eastern	65,000	60,000
Phillips Petroleum	423,600	205,400
Pillsbury	25,000	165,000
St. Paul Companies	60,000	165,000
Security Pacific	60,500	459,500
Southwestern Bell	240,400	—
Transco Energy	200,000	—
Union Carbide	100,000	150,000
Wang Labs, Class B	450,800	69,200
Warner-Lambert	135,000	—

**Portfolio of
Investments**

December 31, 1987

COMMON STOCKS
85.6% of NET ASSETS

Shares		Cost	Value(a)
Basic Industries 12.6%			
267,000	Alcan Aluminium	\$ 6,058,924	\$ 7,175,625
330,000	GenCorp	11,625,992	7,342,500
520,000	General Electric	11,660,980	22,945,000
415,000	ITT	18,135,397	18,467,500
549,800	MacMillan Bloedel	10,931,268	9,784,789
216,100	Morton Thiokol	8,270,218	8,589,975
175,000	Penn Central	8,095,278	7,306,250
115,000	Temple-Inland	5,872,690	5,548,750
150,000	Union Carbide	3,510,861	3,262,500
266,700	Weyerhaeuser	<u>13,219,305</u>	<u>10,334,625</u>
		97,380,913	100,757,514
Consumer Products & Services 4.2%			
136,000	Outboard Marine	4,227,378	2,975,000
317,500	Philip Morris Companies	15,970,841	27,106,563
176,200	SSMC (e)	<u>2,743,396</u>	<u>3,347,800</u>
		22,941,615	33,429,363
Defense Electronics & Aerospace 4.4%			
39,300	E-Systems	1,245,782	1,041,450
130,000	General Dynamics	8,117,492	6,337,500
305,000	Loral	10,652,095	9,607,500
290,000	United Technologies	11,668,070	9,823,750
360,000	Watkins-Johnson	<u>6,151,538</u>	<u>8,280,000</u>
		37,834,977	35,090,200
Electronics 2.6%			
412,500	GenRad (e)	9,966,927	3,712,500
65,000	Intergraph (e)	1,535,741	1,608,750
355,000	Perkin-Elmer	9,008,161	8,520,000
120,000	Texas Instruments	<u>4,939,759</u>	<u>6,690,000</u>
		25,450,588	20,531,250

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

**COMMON
STOCKS**

	Shares	Cost	Value(a)
Energy 7.3%			
352,200	Amerada Hess	\$ 9,786,894	\$ 8,760,975
400	Gas Properties (100% owned) .	40,000	680,000(b)
305,000	Halliburton	7,343,123	7,548,750
450,000	Magma Power (e)	1,414,237	4,106,250
278,000	Noble Affiliates	3,760,403	3,544,500
32,477	Noble Drilling (e)	222,264	129,908
60,000	Panhandle Eastern	1,621,547	1,245,000
205,400	Phillips Petroleum	3,587,934	2,875,600
240,000	Questar	6,713,734	7,740,000
303,300	Schlumberger	9,633,014	8,719,875
392,800	Texas Eastern	11,853,666	8,445,200
200,000	Valero N.G. Partners	4,351,700	4,000,000
	Oil Royalty Interests	—	1,056,000(b)
		<u>60,328,516</u>	<u>58,852,058</u>
Financial Services 12.1%			
329,800	American International Group	14,066,564	19,788,000
460,000	Bank of Boston	13,525,050	10,350,000
321,000	Citicorp	5,491,202	5,978,625
400,000	Farmers Group	7,995,226	16,100,000
139,600	First Chicago	3,262,887	2,634,950
108,700	General Re	6,080,689	6,073,612
125,000	Kaufman & Broad	1,629,339	1,812,500
285,000	Morgan (J.P.)	12,305,300	10,331,250
165,000	St. Paul Companies	6,804,811	7,590,000
459,500	Security Pacific	9,634,371	11,659,813
250,000	Southeast Banking	6,460,085	4,750,000
		<u>87,255,524</u>	<u>97,068,750</u>
Food & Beverage 3.5%			
230,000	McDonald's	3,605,102	10,120,000
375,000	PepsiCo	10,281,258	12,515,625
165,000	Pillsbury	5,567,959	5,795,625
		<u>19,454,319</u>	<u>28,431,250</u>
Health Care 5.8%			
397,000	Beverly Enterprises	7,466,764	2,779,000
116,700	Hospital Corp. of America . . .	3,555,567	3,632,287
210,000	Johnson & Johnson	10,067,123	15,723,750
50,400	Lilly (Eli)	4,350,305	3,931,200
272,000	Pfizer	14,633,823	12,682,000
164,800	SmithKline Beckman	8,247,637	7,992,800
		<u>48,321,219</u>	<u>46,741,037</u>

**COMMON
STOCKS**

Shares		Cost	Value(a)
Merchandising 9.3%			
482,000	K mart	\$ 11,145,785	\$ 14,339,500
460,000	May Department Stores	11,131,119	13,397,500
255,000	Melville Shoe	15,083,102	13,515,000
200,600	Penney (J.C.)	8,227,025	8,701,025
360,000	Sears Roebuck	12,775,842	12,060,000
490,000	Wal-Mart Stores	449,317	12,740,000
		<u>58,812,190</u>	<u>74,753,025</u>
Office Equipment 13.6%			
442,800	Control Data (e)	10,415,631	9,575,550
275,000	Digital Equipment (e)	12,284,190	37,125,000
378,000	International Business Machines	14,762,813	43,659,000
49,000	NCR	730,353	3,099,250
438,100	Unisys	14,963,076	14,731,113
69,200	Wang Labs, Class B	1,102,729	795,800
		<u>54,258,792</u>	<u>108,985,713</u>
Transportation 2.6%			
240,000	Alaska Air Group	5,813,175	3,240,000
310,000	Conrail	10,056,043	8,563,750
235,000	Ryder System	2,439,738	6,227,500
230,900	Southwest Airlines	4,790,621	3,088,287
		<u>23,099,577</u>	<u>21,119,537</u>
Utilities 7.6%			
350,000	American Electric Power	9,512,478	9,187,500
115,000	GTE	3,319,154	4,068,125
904,800	Northern Indiana Public Service	9,045,885	7,690,800
150,000	NYNEX	11,272,267	9,637,500
435,000	Pacific Telesis	11,530,014	11,581,875
216,100	US West	12,180,369	11,048,112
300,000	United Telecommunications (Kansas)	7,440,565	7,387,500
		<u>64,300,732</u>	<u>60,601,412</u>
	Total Common Stocks	<u>\$599,438,962(d)</u>	<u>\$686,361,109</u>

**CORPORATE
SHORT-TERM
NOTES 14.7%
of NET ASSETS**

Principal Amount (thousands)		Value(c)
\$ 12,272	Barclays American due 1/6/88-1/8/88	\$ 12,328,915
16,241	Chevron Oil Finance due 1/25/88-1/27/88	16,245,134
25,217	Ford Motor Credit due 1/4/88-1/28/88	25,276,204
41,932	General Motors Acceptance due 1/7/88-1/26/88 . .	41,998,410
1,027	Household Finance due 1/14/88	1,030,004
17,157	Sears Roebuck Acceptance due 1/12/88-1/21/88 . .	17,223,856
3,284	Westinghouse Credit due 1/5/88	<u>3,308,293</u>
	Total Corporate Short-Term Notes	<u>\$117,410,816</u>

Notes:

- (a) Unless otherwise indicated, market values are based on the last reported sale on December 31, 1987, 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 interest earned, which approximates market value. The annualized "yield to maturity" as of dates of purchase of these securities ranged from 6.78% to 8.35%.
- (d) Average cost of investments. Identified cost for Federal income tax purposes was \$572,967,029 for common stocks.
- (e) Non-income producing security.

**Statement of
Operations**

Investment Income

	Year 1987	Year 1986
Income:		
Dividends (Note 2)	\$ 21,161,578	\$ 21,738,244
Interest	8,944,384	7,240,279
Oil Royalties	505,519	513,461
	<u>30,611,481</u>	<u>29,491,984</u>
Expenses:		
Management Fee (Note 6)	3,143,036	2,947,192
Shareholder Services	330,101	272,861
Shareholder Meeting & Reports	225,132	219,788
Directors' Fees (Note 7)	101,516	96,038
Custody of Securities	86,910	79,989
Legal & Auditing Fees	82,071	74,551
Stock Certificates & Listing Fees	94,210	54,224
Miscellaneous	61,778	43,021
	<u>4,124,754</u>	<u>3,787,664</u>
Net Investment Income (Note 4)	<u>26,486,727</u>	<u>25,704,320</u>
Realized Gain on Investments:		
Proceeds from Securities Sold (Note 8)	556,588,867	493,787,269
Cost of Securities Sold	455,571,285	387,902,508
Net Realized Gain on Investments	<u>101,017,582</u>	<u>105,884,761</u>
Net Unrealized Appreciation of Investments:		
Beginning of Year	194,431,048	208,084,289
End of Year	86,922,147	194,431,048
Decrease in Net Unrealized Appreciation	<u>[107,508,901]</u>	<u>[13,653,241]</u>
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 3 & 4)	<u>[6,491,319]</u>	<u>92,231,520</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 19,995,408</u>	<u>\$117,935,840</u>

See Notes to Financial Statements on pages 18 and 19.

**Statement of
Assets and
Liabilities**

	December 31,	
	1987	1986
Assets		
Investments in Stocks (average cost 1987— \$599,438,962; 1986—\$546,270,971)	\$686,361,109	\$740,702,019
Corporate Short-Term Notes	117,410,816	116,286,721
Cash	40,818	1,320,481
Receivable for Securities Sold	2,544,579	629,279
Dividends Receivable	2,243,646	1,776,827
Total Assets	<u>808,600,968</u>	<u>860,715,327</u>
Liabilities		
Payable for Securities Purchased	6,283,911	8,106,785
Management Fee Payable	729,138	739,017
Accrued Expenses	105,017	104,900
Total Liabilities	<u>7,118,066</u>	<u>8,950,702</u>
Net Assets		
Paid-in Capital	705,526,528	643,524,418
Undistributed Net Investment Income	13,434,261	14,324,547
Distributions in Excess of Net Realized Gains	[4,400,034]	[515,388]
Net Unrealized Appreciation	86,922,147	194,431,048
Net Assets	<u>\$801,482,902</u>	<u>\$851,764,625</u>
Shares of Capital Stock \$1.00 par value, Authorized 75,000,000; Outstanding	60,443,945	55,235,443
Net Asset Value Per Share	\$13.26	\$15.42
Increase in Net Assets		
Operations:		
Net Investment Income	\$ 26,486,727	\$ 25,704,320
Net Realized Gain on Investments	101,017,582	105,884,761
Decrease in Net Unrealized Appreciation	[107,508,901]	[13,653,241]
Net Increase from Operations	<u>19,995,408</u>	<u>117,935,840</u>
Dividends to Shareholders From:		
Net Investment Income	[27,377,013]	[26,530,926]
Net Realized Gain from Investment Transactions	[104,902,228]	[155,417,383]
	<u>[132,279,241]</u>	<u>[181,948,309]</u>
Value of Shares Issued in Payment of Dividends		
	62,002,110	97,526,501
Total Increase [Decrease] in Net Assets	[50,281,723]	33,514,032
Net Assets at Beginning of Year	<u>851,764,625</u>	<u>818,250,593</u>
Net Assets at End of Year	<u>\$801,482,902</u>	<u>\$851,764,625</u>

**Statement of
Changes in
Net Assets**

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 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. Totals of \$21,000 and \$41,000 were received for the years ended December 31, 1987 and 1986, respectively, 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, net realized gain for the years ended December 31, 1987 and 1986 amounted to \$93,280,045 and \$101,186,663, respectively. As of December 31, 1987, total unrealized appreciation and depreciation, based on cost for Federal income tax purposes, amounted to \$169,123,999 and \$55,729,919, respectively, resulting in net unrealized appreciation of \$113,394,080. The corresponding amounts for December 31, 1986 were \$235,183,823 and \$22,018,379 for total unrealized appreciation and depreciation and \$213,165,444 for net unrealized appreciation.
- (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 Federal income taxes.
- (5) The Board of Directors declares income dividends after the close of each calendar quarter and distributions from realized gain in January and November. On November 17, 1987 the Board of Directors declared an initial distribution from net realized gain in the amount of \$1.53 per share, which includes \$.09 per share from net short-term gain. On January 19, 1988 the Board of Directors declared for the year 1987 a final income dividend of \$.015 per share and a final distribution from net realized gain of \$.145 per share, which includes \$.01 per share from net short-term gain.
- (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 \$325 million—.50%; next \$150 million—.30%; next \$250 million—.25%; excess over \$750 million—.20%.

(7) Directors, other than those who were officers or employees of the Corporation or Lemco, were paid fees for attendance at Directors', Audit and Nominating Committee meetings of \$101,516 and \$96,038 for the years ended December 31, 1987 and 1986, respectively.

(8) The cost of securities purchased and proceeds from securities sold during the year 1987, other than corporate short-term notes, aggregated \$508,753,164 and \$556,588,867, respectively. The corresponding amounts for the year 1986 were \$447,537,923 and \$493,787,269.

(9) Capital share transactions included shares issued in payment of dividends and distributions of 5,208,502, for the year ended December 31, 1987 and 6,468,655 for the year ended December 31, 1986.

Selected Per Share Data and Ratios

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

	1987	1986	1985	1984	1983
Investment Income	\$.54	\$.57	\$.60	\$.56	\$.64
Expenses	[.07]	[.07]	[.07]	[.06]	[.08]
Net Investment Income47	.50	.53	.50	.56
Dividends from Investment Income	[.49]	[.515]	[.495]	[.545]	[.625]
Net Realized Gain, Change in Net Unrealized Appreciation & Capital Share Transactions	[.26]	1.74	3.16	[1.095]	3.04
Distributions from Realized Gain*	[1.88]	[3.085]	[1.085]	[2.44]	[1.365]
Net Asset Value Beginning of Year	15.42	16.78	14.67	18.25	16.64
Net Asset Value End of Year	<u>\$13.26</u>	<u>\$15.42</u>	<u>\$16.78</u>	<u>\$14.67</u>	<u>\$18.25</u>
Shares Outstanding End of Year (thousands)	60,444	55,235	48,767	46,706	42,528
Ratio of Expenses to Average Net Assets44%	.43%	.47%	.46%	.45%
Portfolio Turnover Rate	54%	58%	52%	42%	42%

*Includes net short-term capital gain per share of \$.22 in 1987, \$.02 in 1986, \$.035 in 1985, \$.38 in 1984, and \$.045 in 1983.

**Quarterly
Financial
Information**

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

	Amounts in Thousands and Per Share Three Months Ended							
	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
	March 31, 1987		June 30, 1987		September 30, 1987		December 31, 1987	
Net Investment								
Income	\$ 6,031	\$.11	\$ 6,374	\$.11	\$ 6,534	\$.12	\$ 7,548	\$.13
Net Realized Gain & Change in Net Unrealized Appreciation . .	\$155,147	\$ 2.77	\$ 21,261	\$.38	\$ 52,113	\$.94	\$[235,012]	\$ [4.20]

**Report of
Independent
Accountants**

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

In our opinion, the accompanying Statement of Assets and Liabilities, including the Schedule of Portfolio of Investments at December 31, 1987, and the related Statements of Operations and of Changes in Net Assets and Selected Per Share Data and Ratios present fairly the financial position of The Lehman Corporation at December 31, 1987 and 1986, the results of its operations and the changes in its net assets for the years then ended and the selected per share data and ratios for each of the five years in the period ended December 31, 1987, all in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements and selected per share data and ratios 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, 1987 and 1986 by correspondence with the custodian and brokers.

PRICE WATERHOUSE

153 East 53rd Street
New York, N.Y.
January 19, 1988

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. Stone	Secretary
Janet S. Tolchin	Assistant Secretary & Assistant Treasurer

Lehman Management Co., Inc. New York, N.Y.	Investment Adviser
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Simpson Thacher & Bartlett New York, N.Y.	Legal Counsel
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Price Waterhouse New York, N.Y.	Independent Accountants
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The Bank of New York New York, N.Y.	Custodian, Transfer and Dividend Paying Agent
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The Lehman Corporation

55 Water Street

New York, N.Y. 10041