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# *The Lehman Corporation*



*Annual Report*  
*1988*

## Board of Directors

- Charles F. Barber\*†** Consultant, formerly Chairman, ASARCO Incorporated
- E. Robert Breech, Jr.†** President, Dealer Operating Control Service Inc.
- William R. Dill†** President, Babson College
- Francis L. Fraenkel** Chairman and President; Chairman, Lehman Management Co., Inc.
- Edwin A. Gee\*** 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

## Honorary Director

- John M. Martin** Formerly Chairman, Hercules Incorporated

\* Member Audit Committee

† Member Nominating Committee



*Francis L. Fraenkel  
Chairman and President*

## **The Lehman Corporation**

55 Water Street  
New York, N.Y. 10041

### **To the Shareholders**

February 10, 1989

Dear Shareholder:

The Lehman Corporation's net asset value per share increased 12.9% in 1988, assuming reinvestment of the distributions from long- and short-term capital gains of \$.145 per share paid to shareholders on February 17, 1988 and \$.345 per share paid to shareholders on December 27, 1988. This compares with increases of 11.8% for the unmanaged Dow Jones Industrial Stock Average and 12.4% for the Standard & Poor's Index of 500 Stocks.

The Corporation's total return was 16.3% in 1988, compared to 16.6% for the Standard & Poor's Index and 16.2% for the Dow Jones Average.

The net asset value of the Corporation's stock was \$14.37 per share at December 31, 1988, equivalent to \$14.97 assuming reinvestment of the distributions from capital gains.

On January 17, 1989, the Board of Directors declared a final distribution from net realized gain on the sale of investments during 1988 amounting to \$.475 per share, including \$.045 from short-term gain. The distribution from long-term capital gain of \$.43 per share has been designated as a "capital gain dividend" under the Internal Revenue Code. Both dividends are payable February 28, 1989 to shareholders of record January 31, 1989.

General Brent Scowcroft, a director since 1984, resigned from the Board in January to accept a position in the Bush Administration. General Scowcroft served the Corporation loyally and with dedication and we are grateful for his contribution.



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.

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 of \$25.00 or more to purchase additional 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 at 10:00 A.M. on April 18, 1989 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.



Francis L. Fraenkel  
*Chairman and President*

Cordially,



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, NY 10015, or you may telephone (212) 495-1784 from New York City or (800) 524-4458 from anywhere in the continental United States.



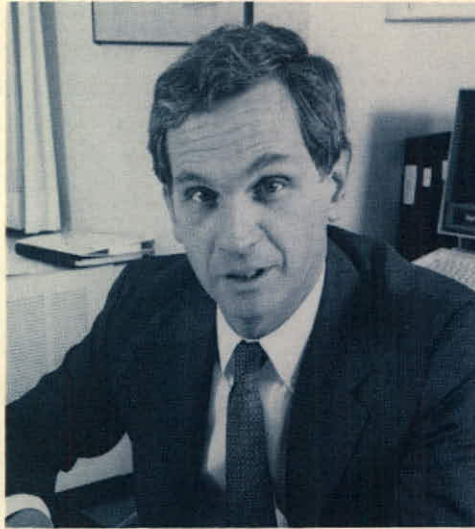
*C. Charles Hetzel  
Vice Chairman and Portfolio Manager*

Investors generally agree that without credible fiscal policy action the U.S. economy and financial markets will have problems in 1989. The vulnerability of the economy is reflected in the currently inverted Treasury yield curve (i.e., short-term interest rates higher than long-term interest rates). Historically, an inverted yield curve is a negative indicator for both the economy and the stock market. Although financial deregulation has made an inverted yield curve less of a negative factor than it has been in the past, high short-term interest rates enhance the investment appeal

of cash compared with stocks and bonds.

The ideal economic policy mix for the U.S. would shrink the budget and foreign trade deficits while maintaining positive economic growth. With the current business expansion entering its seventh year, the U.S. economy is nearing limits in labor and facilities. The policy objective would be to reduce domestic demand, both public and private, thereby freeing resources for the production of exports. Capacity could then be found to meet export demand; at the same time accelerating inflation would be avoided. To accomplish this, and reduce Federal spending, taxes discouraging consumption would have to be increased. A reduced budget deficit would allow an easing of monetary policy and a lowering of interest rates. Lower interest rates would help maintain an undervalued dollar and continued improvement of the U.S. trade deficit. Further reduction of the trade deficit would contribute to sustaining economic growth and reducing the financing costs of the deficit.

This course of action sounds effective in theory; however, there are a number of practical problems. The incoming Bush Administration might have put itself into a box during the election campaign with respect to higher taxes. Even if the new Administration proposes a credible fiscal program, there is doubt whether a Democratic Congress would be amenable to such a program. Meaningful budget action might only be prompted by a crisis. The dollar is the most likely catalyst for such a crisis. A weaker dollar would require sharply higher short-term interest rates to arrest its decline. An



*Louis J. Ganz*  
*Executive Vice President*

abrupt rise in short rates would increase the likelihood of the more usual historical consequence of an inverted yield curve, namely, a recession before the end of 1989.

Although a case can be made for continued economic expansion without a major policy change, we are not optimistic that the securities markets will offer attractive returns without a change in fiscal policy. The one-year T-bill yield, presently just over 9%, could at least be competitive with equities in 1989.

With a cautious stock market outlook for 1989,

our emphasis is on defensive investments with a concentration in utility, financial and consumer non-durable stocks. We are also selectively invested in capital spending-related stocks (e.g., technology stocks), in anticipation of a continued trend toward re-industrialization of America. During the last six months, disappointing earnings results from several high-technology companies have depressed the prices of almost all related issues. Shares of many of these economically sensitive electronic and office equipment manufacturers represent potential growth at very reasonable prices, and we have increased our holdings in this area.

## 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.

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.

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.

**Investment  
Policy**  
(continued)

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 1964, 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*
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	177.2
1978-87	173.0	133.3	191.7
1979-88	199.7	169.4	200.3
<b>25-Year Period</b>			
1964-88	305.4	184.2	464.4

\*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

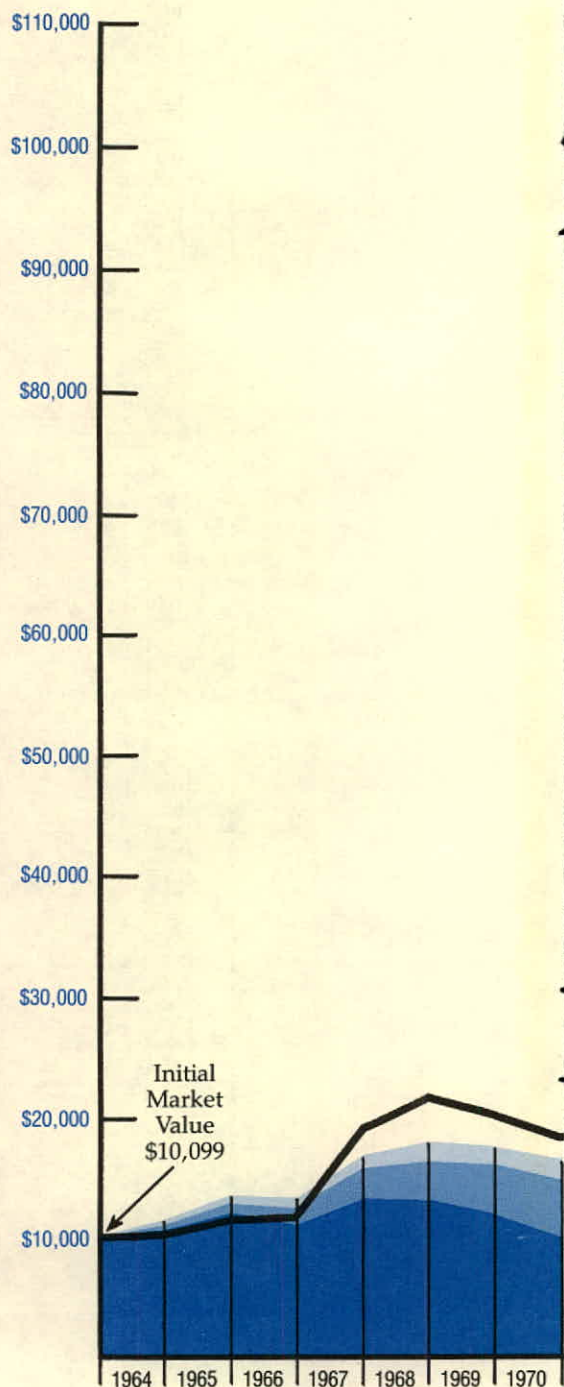
Year	Distributions Declared from		Net Asset Value End of Year	Capital Gain Distributions (Cumulative)	Net Asset Value plus Capital Gain Distributions
	Income	Capital Gain			
1929			\$ 3.81		\$ 3.81
1930	\$ .094		3.08		3.08
1931	.119		2.36		2.36
1932	.10		2.43		2.43
1933	.10		3.35		3.35
1934	.10		3.68		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
1988	.505	.49	14.37	37.780	52.150
Total	<u>\$16.831</u>	<u>\$37.780</u>			

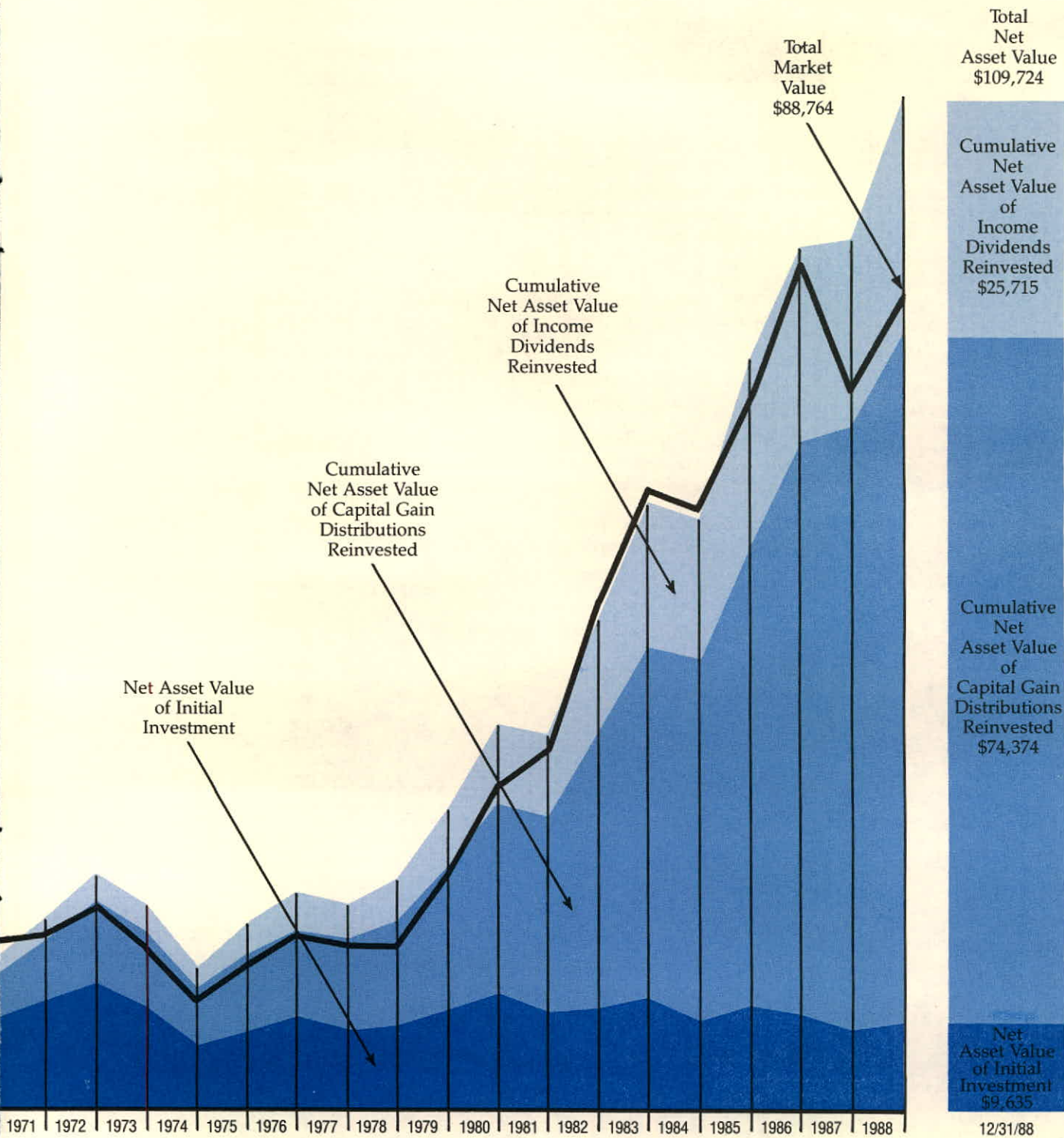
†Capital gain dividend of \$1.01 per share and an income dividend of \$.02 per share for 1976 were declared in January 1977.

## 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 1964 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		
1964	\$10,731	\$ 436	\$ 201	\$11,368	\$10,699
1965	12,115	973	458	13,546	11,995
1966	11,090	1,444	667	13,201	12,022
1967	13,389	2,424	1,093	16,906	19,578
1968	13,201	3,446	1,387	18,034	22,097
1969	11,814	4,360	1,554	17,728	20,499
1970	10,077	4,785	1,642	16,504	18,805
1971	11,981	6,592	2,295	20,868	19,123
1972	13,724	9,068	2,995	25,787	22,361
1973	11,063	8,410	2,763	22,236	17,856
1974	7,221	6,087	2,158	15,466	12,027
1975	8,817	8,428	3,013	20,258	16,175
1976	10,111	9,665	3,812	23,588	19,356
1977	8,797	9,968	3,747	22,512	18,016
1978	9,259	11,398	4,588	25,245	18,052
1979	11,009	15,588	6,402	32,999	26,377
1980	12,658	20,821	8,766	42,245	35,801
1981	10,432	21,605	8,946	40,983	39,508
1982	11,157	30,191	12,209	53,557	55,923
1983	12,236	38,433	15,697	66,366	67,730
1984	9,836	39,440	14,991	64,267	65,713
1985	11,250	50,584	19,791	81,625	77,831
1986	10,339	62,577	20,707	93,623	91,832
1987	8,890	65,159	20,295	94,344	78,265
1988	9,635	74,374	25,715	109,724	88,764





**Largest  
Investments**

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1988 are listed below. The total market value of these securities represented 25% 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, 1988 had an aggregate net asset value of \$14,370, of which 25%, or \$3,593, was invested in these ten securities.

	Shares	Market Value
International Business Machines . . . . . <i>The largest manufacturer of information processing systems.</i>	363,000	\$ 44,240,625
Digital Equipment . . . . . <i>The largest mini-computer company and manufacturer of information processing systems.</i>	263,100	25,882,462
General Electric . . . . . <i>A leading producer of diversified electrical products and electronic equipment.</i>	573,500	25,664,125
Philip Morris Companies . . . . . <i>Leading consumer product company with three operating segments—tobacco, packaged foods and beverage.</i>	251,500	25,621,563
American International Group . . . . . <i>A leading worldwide insurance company.</i>	350,000	23,712,500
ITT . . . . . <i>A diversified company with major operations in telecommunication products and services and insurance.</i>	360,000	18,135,000
Security Pacific . . . . . <i>Bank holding company.</i>	474,500	17,141,313
K mart . . . . . <i>Nation's second-largest retailer.</i>	450,000	15,806,250
Wal-Mart Stores . . . . . <i>An operator of discount department stores in the Sunbelt and Midwest.</i>	455,000	14,275,625
Marion Laboratories . . . . . <i>An ethical drug marketer.</i>	698,100	14,049,263
Total . . . . .		<u>\$224,528,726</u>

## Portfolio Changes

Listed below are the Corporation's portfolio changes during the three months ended December 31, 1988. Excluded from the list are changes resulting entirely from stock dividends and stock splits.

### ADDITIONS

	Shares Increased	Shares Held Dec. 31, 1988
Alaska Air Group . . . . .	30,000	220,000
AMP . . . . .	110,000	210,000
Anadarko Petroleum . . . . .	8,500	224,000
Anheuser-Busch Companies . . . . .	323,200	323,200
Baxter International . . . . .	168,100	618,100
Chubb . . . . .	152,800	165,000
Circuit City Stores . . . . .	240,000	240,000
Consolidated Rail . . . . .	2,000	258,300
Dow Chemical . . . . .	10,000	120,000
First Chicago . . . . .	65,000	325,000
Intergraph . . . . .	395,000	395,000
K mart . . . . .	40,700	450,000
Marion Laboratories . . . . .	38,100	698,100
Morgan (J.P.) . . . . .	30,000	365,000
NYNEX . . . . .	100,000	100,000
Philadelphia Electric . . . . .	120,000	520,000
Security Pacific . . . . .	10,000	474,500
SmithKline Beckman . . . . .	1,100	180,000
Super Valu Stores . . . . .	85,000	330,000
Tandem Computers . . . . .	67,600	617,600
Texas Instruments . . . . .	15,000	285,000
Unisys . . . . .	21,900	450,000
US Shoe . . . . .	45,000	295,000
Upjohn . . . . .	250,000	250,000
Varian Associates . . . . .	25,000	460,100

### REDUCTIONS

	Shares Decreased	Shares Held Dec. 31, 1988
American International Group . . . . .	41,300	350,000
Dayton-Hudson . . . . .	15,000	185,000
Digital Equipment . . . . .	10,000	263,100
Eastman Kodak . . . . .	10,000	131,500
Farmers Group . . . . .	150,000	—
General Electric . . . . .	49,000	573,500
Halliburton . . . . .	126,000	62,700
Hospital Corporation of America . . . . .	100,000	—
ITT . . . . .	20,000	360,000
Johnson & Johnson . . . . .	45,000	130,000
Limited . . . . .	48,500	380,000
May Department Stores . . . . .	266,200	82,000
McDonald's . . . . .	40,000	235,000
Morton Thiokol . . . . .	30,000	205,000
Penney (J.C.) . . . . .	190,600	—
PepsiCo . . . . .	460,000	—
Pfizer . . . . .	30,000	167,200
Philip Morris Companies . . . . .	45,000	251,500
Ryder System . . . . .	166,800	—
Texas Eastern . . . . .	45,000	250,000
US West . . . . .	20,000	241,100
United Technologies . . . . .	40,000	195,000
Wal-Mart Stores . . . . .	10,000	455,000

**Portfolio of  
Investments**

December 31, 1988

**COMMON STOCKS**

85.5% of NET ASSETS

Shares		Cost	Value(a)
<b>Basic Industries 9.9%</b>			
350,000	Champion International . . . . .	\$ 11,498,471	\$ 11,243,750
120,000	Dow Chemical . . . . .	9,721,356	10,530,000
573,500	General Electric . . . . .	14,647,950	25,664,125
360,000	ITT . . . . .	15,731,911	18,135,000
205,000	Morton Thiokol . . . . .	7,829,701	7,559,375
400,000	Penn Central . . . . .	9,218,428	9,700,000
100,600	Temple-Inland . . . . .	5,137,327	4,791,075
		<u>73,785,144</u>	<u>87,623,325</u>
<b>Consumer Products &amp; Services 4.0%</b>			
131,500	Eastman Kodak . . . . .	5,394,105	5,933,937
251,500	Philip Morris Companies . . . . .	12,782,588	25,621,563
174,800	SSMC (e) . . . . .	2,721,598	3,845,600
		<u>20,898,291</u>	<u>35,401,100</u>
<b>Defense Electronics &amp; Aerospace 3.7%</b>			
115,000	General Dynamics . . . . .	7,180,858	5,836,250
280,000	Loral . . . . .	9,782,475	9,030,000
195,000	United Technologies . . . . .	7,845,772	8,019,375
380,000	Watkins-Johnson . . . . .	6,662,938	10,165,000
		<u>31,472,043</u>	<u>33,050,625</u>
<b>Electronics 5.1%</b>			
210,000	AMP . . . . .	8,765,970	9,345,000
412,500	GenRad (e) . . . . .	9,966,927	3,042,187
395,000	Intergraph (e) . . . . .	8,379,375	8,295,000
285,000	Texas Instruments . . . . .	12,494,778	11,685,000
460,100	Varian Associates . . . . .	11,555,248	12,882,800
		<u>51,162,298</u>	<u>45,249,987</u>

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

**COMMON  
STOCKS**

Shares		Cost	Value(a)
<b>Energy 8.1%</b>			
368,200	Amerada Hess . . . . .	\$ 10,204,824	\$ 11,598,300
224,000	Anadarko Petroleum . . . . .	5,107,239	5,740,000
400	Gas Properties (100% owned) . . . . .	40,000	804,000(b)
62,700	Halliburton . . . . .	1,606,740	1,755,600
450,000	Magma Power (e) . . . . .	1,414,237	7,087,500
278,000	Noble Affiliates . . . . .	3,760,403	3,440,250
242,500	Questar . . . . .	6,792,346	7,820,625
80,000	Royal Dutch Petroleum—		
	10 Guilder . . . . .	8,807,625	9,120,000
250,000	Texaco . . . . .	11,873,382	12,781,250
250,000	Texas Eastern . . . . .	7,320,406	7,000,000
200,000	Valero Natural Gas		
	Partners, L.P.—Units . . . . .	3,851,701	3,075,000
	Oil Royalty Interests . . . . .	—	1,154,500(b)
		<u>60,778,903</u>	<u>71,377,025</u>
<b>Financial Services 12.3%</b>			
195,000	Aetna Life & Casualty . . . . .	8,785,352	9,213,750
350,000	American International Group . . . . .	15,663,809	23,712,500
380,000	Bank of Boston . . . . .	11,172,867	8,977,500
310,000	Bankers Trust . . . . .	11,235,873	10,850,000
165,000	Chubb . . . . .	9,458,085	9,570,000
325,000	First Chicago . . . . .	9,416,390	9,628,125
365,000	Morgan (J.P.) . . . . .	15,025,900	12,729,375
474,500	Security Pacific . . . . .	10,566,567	17,141,313
300,000	Southeast Banking . . . . .	7,539,085	6,750,000
		<u>98,863,928</u>	<u>108,572,563</u>
<b>Food &amp; Beverage 2.4%</b>			
323,200	Anheuser-Busch . . . . .	10,256,304	10,180,800
235,000	McDonald's . . . . .	5,250,899	11,309,375
		<u>15,507,203</u>	<u>21,490,175</u>
<b>Health Care 8.1%</b>			
618,100	Baxter International . . . . .	11,620,311	10,894,012
130,000	Johnson & Johnson . . . . .	6,867,703	11,066,250
698,100	Marion Laboratories . . . . .	12,648,119	14,049,263
167,200	Pfizer . . . . .	8,995,497	9,697,600
180,000	SmithKline Beckman . . . . .	8,838,459	8,662,500
152,500	Squibb . . . . .	8,924,493	10,103,125
250,000	Upjohn . . . . .	7,283,096	7,187,500
		<u>65,177,678</u>	<u>71,660,250</u>

**COMMON  
STOCKS**

Shares		Cost	Value(a)
<b>Merchandising 8.4%</b>			
240,000	Circuit City Stores . . . . .	\$ 9,215,396	\$ 8,490,000
185,000	Dayton-Hudson . . . . .	6,195,060	7,330,625
450,000	K mart . . . . .	11,083,761	15,806,250
380,000	Limited . . . . .	7,458,396	10,355,000
82,000	May Department Stores . . . . .	2,077,449	2,972,500
330,000	Super Valu Stores . . . . .	6,582,926	8,085,000
295,000	US Shoe . . . . .	5,715,774	7,301,250
455,000	Wal-Mart Stores . . . . .	417,223	14,275,625
		<u>48,745,985</u>	<u>74,616,250</u>
<b>Office Equipment 12.5%</b>			
500,000	Amdahl . . . . .	9,723,837	10,125,000
400,000	Control Data (e) . . . . .	9,381,245	7,850,000
263,100	Digital Equipment (e) . . . . .	12,510,087	25,882,462
363,000	International Business Machines	14,176,987	44,240,625
617,600	Tandem Computers (e) . . . . .	8,779,991	10,422,000
450,000	Unisys . . . . .	15,083,632	12,656,250
		<u>69,655,779</u>	<u>111,176,337</u>
<b>Transportation 1.5%</b>			
220,000	Alaska Air Group . . . . .	5,187,743	4,400,000
258,300	Consolidated Rail . . . . .	8,376,238	8,717,625
		<u>13,563,981</u>	<u>13,117,625</u>
<b>Utilities 9.5%</b>			
390,000	American Electric Power . . . . .	10,612,778	10,627,500
904,800	NIPSCO Industries . . . . .	9,045,885	12,554,100
100,000	NYNEX . . . . .	6,578,046	6,600,000
310,000	Pacific Telesis Group . . . . .	8,216,792	9,571,250
520,000	Philadelphia Electric . . . . .	9,864,050	10,400,000
350,000	Public Service Enterprise Group	8,406,770	8,575,000
241,100	US West . . . . .	13,490,818	13,923,525
250,000	United Telecommunications . .	6,776,964	11,593,750
		<u>72,992,103</u>	<u>83,845,125</u>
	Total Common Stocks . . . . .	<u>\$622,603,336(d)</u>	<u>\$757,180,387</u>



**CORPORATE  
SHORT-TERM  
NOTES 14.4%  
OF NET ASSETS**

Principal Amount (thousands)		Value(c)
\$28,003	Chevron Oil Finance due 1/5/89-1/10/89 . . . . .	\$ 28,029,430
25,209	Ford Motor Credit due 1/3/89-1/9/89 . . . . .	25,227,898
38,219	General Motors Acceptance due 1/3/89-1/6/89 . . .	38,312,262
1,548	ITT Financial due 1/3/89 . . . . .	1,559,415
10,246	Sears Roebuck Acceptance due 1/25/89 . . . . .	10,266,952
24,304	Westinghouse Credit due 1/11/89-1/12/89 . . . . .	<u>24,362,469</u>
	Total Corporate Short-Term Notes. . . . .	<u>\$127,758,426</u>

*Notes:*

- (a) Unless otherwise indicated, market values are based on the last reported sale on December 30, 1988 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. Annualized "yield to maturity" as of the dates of purchase of these securities ranged from 9.15% to 9.86%.
- (d) Average cost of investments. Identified cost for Federal income tax purposes was \$594,118,498.
- (e) Non-income producing security.

**Statement of  
 Operations**

	Year 1988	Year 1987
<b>Investment Income</b>		
<b>Income:</b>		
Dividends (Note 1(d)) . . . . .	\$ 23,009,572	\$ 21,161,578
Interest . . . . .	9,216,935	8,944,384
Oil Royalties and Other Income . . . . .	1,316,352	505,519
	<u>33,542,859</u>	<u>30,611,481</u>
<b>Expenses:</b>		
Management Fee (Note 4) . . . . .	2,916,688	3,143,036
Shareholder Services . . . . .	377,068	330,101
Shareholder Meeting & Reports . . . . .	301,588	225,132
Directors' Fees . . . . .	96,000	101,516
Legal & Auditing Fees . . . . .	90,247	82,071
Custody of Securities . . . . .	77,020	86,910
Stock Certificates & Listing Fees . . . . .	61,401	94,210
Miscellaneous . . . . .	74,395	61,778
	<u>3,994,407</u>	<u>4,124,754</u>
Net Investment Income (Note 1(b)) . . . . .	<u>29,548,452</u>	<u>26,486,727</u>
<b>Realized Gain on Investments</b>		
Proceeds from Securities Sold (Note 5) . . . . .	394,207,534	556,588,867
Cost of Securities Sold . . . . .	340,833,179	455,571,285
Net Realized Gain on Investments . . . . .	<u>53,374,355</u>	<u>101,017,582</u>
<b>Net Unrealized Appreciation of Investments</b>		
Beginning of Year . . . . .	86,922,147	194,431,048
End of Year . . . . .	134,577,051	86,922,147
Change in Net Unrealized Appreciation . . . . .	<u>47,654,904</u>	<u>[107,508,901]</u>
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 1(b) & 1(c)) . . . . .	<u>101,029,259</u>	<u>[6,491,319]</u>
Net Increase in Net Assets Resulting from Operations . . . . .	<u>\$130,577,711</u>	<u>\$ 19,995,408</u>

See Notes to Financial Statements on pages 18 and 19.

**Statement of  
Assets and  
Liabilities**

	December 31,	
	1988	1987
<b>Assets</b>		
Investments in Stocks (average cost 1988— \$622,603,336; 1987—\$599,438,962) (Note 1(a)) . . . . .	\$757,180,387	\$686,361,109
Corporate Short-Term Notes (Note 1(a)) . .	127,758,426	117,410,816
Cash . . . . .	3,556,726	40,818
Receivable for Securities Sold . . . . .	1,868,703	2,544,579
Dividends Receivable . . . . .	2,422,384	2,243,646
Total Assets . . . . .	<u>892,786,626</u>	<u>808,600,968</u>
<b>Liabilities</b>		
Payable for Securities Purchased . . . . .	6,578,046	6,283,911
Management Fee Payable . . . . .	739,738	729,138
Accrued Expenses . . . . .	100,400	105,017
Total Liabilities . . . . .	<u>7,418,184</u>	<u>7,118,066</u>
<b>Net Assets</b>		
Paid-in Capital . . . . .	718,976,082	705,526,528
Undistributed Net Investment Income . . .	12,458,521	13,434,261
Under (Over) Distributions of Net Realized Gain . . . . .	19,356,788	[4,400,034]
Net Unrealized Appreciation . . . . .	134,577,051	86,922,147
Net Assets . . . . .	<u>\$885,368,442</u>	<u>\$801,482,902</u>
Shares of Capital Stock, \$1.00 par value, Authorized 75,000,000; Outstanding . .	61,594,463	60,443,945
<b>Net Asset Value Per Share</b> . . . . .	\$14.37	\$13.26

**Statement of  
Changes in  
Net Assets**

	Year 1988	Year 1987
<b>Change in Net Assets</b>		
<b>Operations:</b>		
Net Investment Income . . . . .	\$ 29,548,452	\$ 26,486,727
Net Realized Gain on Investments . . . .	53,374,355	101,017,582
Change in Net Unrealized Appreciation . . . . .	47,654,904	[107,508,901]
Net Change from Operations . . . . .	<u>130,577,711</u>	<u>19,995,408</u>
<b>Dividends to Shareholders from:</b>		
Net Investment Income . . . . .	[30,524,193]	[27,377,013]
Net Realized Gain on Investments . . . .	[29,617,533]	[104,902,228]
	<u>[60,141,726]</u>	<u>[132,279,241]</u>
<b>Capital Share Transactions:</b>		
Value of Shares Issued in Payment of Dividends . . . . .	13,449,555	62,002,110
Total Change in Net Assets . . . . .	83,885,540	[50,281,723]
<b>Net Assets Beginning of Year</b> . . . . .	801,482,902	851,764,625
<b>Net Assets End of Year</b> . . . . .	<u>\$885,368,442</u>	<u>\$801,482,902</u>

**Notes to  
Financial  
Statements**

**1. Significant Accounting Policies**

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

(a) *Securities Valuation.* Investments are carried at market or fair value and corporate short-term notes are carried at cost plus interest earned (see notes, page 15).

(b) *Federal Income Taxes.* The Corporation has complied and intends to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

(c) *Realized Gain and Unrealized Appreciation.* 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, 1988 and 1987 amounted to \$50,913,090 and \$93,280,045, respectively. As of December 31, 1988, total unrealized appreciation and depreciation, based on cost for Federal income tax purposes, amounted to \$181,993,693 and \$18,931,804, respectively, resulting in net unrealized appreciation of \$163,061,889. The corresponding amounts at December 31, 1987 were \$169,123,999 and \$55,729,919 for total unrealized appreciation and depreciation and \$113,394,080 for net unrealized appreciation.

(d) *Other.* Securities transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Dividends and capital gain distributions to shareholders are recorded on the ex-dividend date. Total dividends of \$27,000 and \$21,000, respectively, were received for the years ended December 31, 1988 and 1987 on stocks of companies more than 5% of whose outstanding voting securities were owned by the Corporation.

**2. Distributions**

The Board of Directors declares income dividends after the close of each calendar quarter and distributions from realized gain in January and November. On January 17, 1989, the Board of Directors declared for the year 1988 a final distribution from net realized gain of \$.475 per share, which includes \$.045 per share from net short-term gain.

**3. Capital Stock**

Capital share transactions included shares issued in payment of dividends and distributions of 1,150,518 and 5,208,502, respectively, for the years ended December 31, 1988 and 1987. The par value of capital stock outstanding and paid-in capital amounted to \$61,594,463 and \$657,381,619, respectively, at December 31, 1988 and \$60,443,945 and \$645,082,583 at December 31, 1987.

**Selected  
Per Share Data  
and Ratios**

**4. Management Fee**

The Corporation retains Lehman Management Co., Inc. ("Lemco"), a wholly-owned subsidiary of Shearson Lehman Hutton Inc. ("SLH"), to act as investment manager of the Corporation subject to the supervision of its Board of Directors. Lemco provides the Corporation with office space and certain facilities required for conducting its business and pays the compensation of its officers. 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%.

**5. Purchases and Sales of Securities and Transactions with Affiliates**

The cost of securities purchased and proceeds from securities sold (other than corporate short-term notes) during the year ended December 31, 1988 aggregated \$364,497,533 and \$394,207,534, respectively. The corresponding amounts for the year ended December 31, 1987 were \$508,753,164 and \$556,588,867.

For the year ended December 31, 1988, brokerage commissions of \$34,510 were paid to SLH for transactions executed on behalf of the Corporation.

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

	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>
Investment Income . . . . .	\$ .55	\$ .54	\$ .57	\$ .60	\$ .56
Expenses . . . . .	[.06]	[.07]	[.07]	[.07]	[.06]
Net Investment Income . . . . .	.49	.47	.50	.53	.50
Dividends from Net Investment Income . . . . .	[.505]	[.49]	[.515]	[.495]	[.545]
Net Realized Gain, Change in Net Unrealized Appreciation & Capital Share Transactions . . . . .	1.615	[.26]	1.74	3.16	[1.095]
Distributions from Realized Gain . . . . .	[.49]	[1.88]	[3.085]	[1.085]	[2.44]
Net Asset Value Beginning of Year . . . . .	<u>13.26</u>	<u>15.42</u>	<u>16.78</u>	<u>14.67</u>	<u>18.25</u>
Net Asset Value End of Year	<u>\$14.37</u>	<u>\$13.26</u>	<u>\$15.42</u>	<u>\$16.78</u>	<u>\$14.67</u>
Shares Outstanding End of Year (thousands) . . . . .	61,594	60,444	55,235	48,767	46,706
Ratio of Expenses to Average Net Assets . . . . .	.47%	.44%	.43%	.47%	.46%
Ratio of Net Investment Income to Average Net Assets . . . . .	3.44%	2.81%	2.95%	3.50%	3.44%
Portfolio Turnover Rate . . . . .	49%	54%	58%	52%	42%

**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, 1988		June 30, 1988		Sept. 30, 1988		Dec. 31, 1988	
Net Investment								
Income . . . . .	\$ 6,651	\$ .11	\$ 6,857	\$ .11	\$ 8,432	\$ .14	\$ 7,608	\$ .13
Net Realized Gain & Change in Net Unrealized Appreciation . . .	\$ 43,178	\$ .71	\$ 43,474	\$ .72	\$ 4,772	\$ .08	\$ 9,605	\$ .16
	March 31, 1987		June 30, 1987		Sept. 30, 1987		Dec. 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)

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, 1988, and the related statements of operations and of changes in net assets and the selected per share data and ratios present fairly, in all material respects, the financial position of The Lehman Corporation (the "Corporation") at December 31, 1988 and 1987, 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, 1988, in conformity with generally accepted accounting principles. These financial statements and selected per share data and ratios (hereafter referred to as "financial statements") are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the financial statements. We believe that our audits, which included confirmation of securities owned at December 31, 1988 and 1987 by correspondence with the custodian and brokers, provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE  
New York, N.Y.  
January 20, 1989

## Officers

<b>Francis L. Fraenkel</b>	Chairman and President
<b>C. Charles Hetzel</b>	Vice Chairman
<b>Louis J. Ganz</b>	Executive Vice President
<b>Martin L. Roberts</b>	Vice President
<b>Anthony Forlano</b>	Treasurer
<b>Mary R. Stone</b>	Secretary
<b>Janet S. Tolchin</b>	Assistant Secretary and Assistant Treasurer

<b>Lehman Management Co., Inc.</b> New York, N.Y.	Investment Adviser
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<b>Simpson Thacher &amp; Bartlett</b> New York, N.Y.	Legal Counsel
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<b>Price Waterhouse</b> New York, N.Y.	Independent Accountants
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<b>The Bank of New York</b> 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*