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1976 ANNUAL REPORT

LEHMAN

CORPORATION

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 22 1977
MCGILL UNIVERSITY

**Board of
Directors**

December 31, 1976

Henry R. Breck	Managing Director of Lehman Brothers Incorporated
Robert H. Buckles	President of the Corporation
John S. Bugas	Private Investor; formerly Vice President and Director of Ford Motor Company
Charles F. Fogarty	Chairman of the Board of Texasgulf Inc.
James W. Glanville	Managing Director and Director of Lehman Brothers Incorporated
F. Warren Hellman	Chairman of the Board of the Corporation; Managing Director of Lehman Brothers Incorporated
James M. Hester	Rector of The United Nations University
C. Charles Hetzel	Vice President of the Corporation; Managing Director of Lehman Brothers Incorporated
George H. Heyman, Jr.	Chairman of the Investment Committee, Managing Director and Director of Lehman Brothers Incorporated
Ian K. MacGregor	Chairman of the Board of AMAX Inc.
John M. Martin	Chairman of the Board of Hercules Incorporated
Alexander N. McFarlane	Honorary Chairman of the Board of CPC International Inc.
Alvin W. Pearson	Managing Director of Lehman Brothers Incorporated
Peter G. Peterson	Chairman of the Board and President of Lehman Brothers Incorporated
John W. Reavis	Senior Partner of Jones, Day, Reavis & Pogue
Adelaide M. Schlafly	Vice President of W. C. McBride-Silurian Oil Co.
William T. Seawell	Chairman of the Board of Pan American World Airways, Inc.
Lewis P. Seiler	Formerly Chairman of the Board of Associated Dry Goods Corporation
F. Ritter Shumway	Honorary Director of Sybron Corporation
Gerald H. Trautman	Chairman of the Board of The Greyhound Corporation
Frazar B. Wilde	Chairman Emeritus of Connecticut General Insurance Corporation

The Lehman Corporation

One South William Street
New York, N. Y. 10004

January 26, 1977

To the Shareholders

WE SUBMIT HEREWITH the Annual Report of The Lehman Corporation for the year 1976.

The total net asset value of the Corporation as of December 31, 1976 amounted to \$472,961,825 equal to \$15.08 per share on the 31,353,275 shares outstanding. At the beginning of the year the net asset value amounted to \$13.15 per share.

During the year 1976 the Dow Jones and Standard & Poor's industrial averages, two widely used, unmanaged indexes of stock prices, increased 17.9% and 18.4%, respectively. By comparison, The Lehman Corporation's net asset value per share increased 14.7% while the market price of the Corporation's stock on the New York Stock Exchange increased 17.9%.

On January 18, 1977 the Board of Directors declared a distribution from net gains realized on the sale of investments during the year 1976 amounting to \$1.01 per share. This distribution has been designated by the Corporation as a "capital gain dividend" under the Federal Internal Revenue Code. At the same meeting, the Board of Directors declared the final dividend from investment income earned during the year 1976 amounting to \$.02 per share. Both dividends are payable on March 2, 1977 to holders of record January 28, 1977.

Stockholders were given the option of receiving the income dividend as well as the capital gain dividend in cash, or in stock taken at the lower of net asset value or the average market price on February 16, 1977. Heretofore, when holders were given this option, stock was issued for more than 50% of the total distribution for each year, thereby increasing the Corporation's cash reserves. Based on this experience it is anticipated that the Corporation's present cash reserves will be substantially increased by paying the distribution in this manner.

As you know, the Corporation's stock, like the stocks of most other diversified closed-end investment companies, has been selling at prices below the net asset values per share. The Board of Directors believes that the repurchase by the Corporation of shares of its own capital stock at times when


the stock is selling at substantial discounts from net asset value may be one of the most attractive investments the Corporation can make with a portion of its cash reserves. Accordingly, the Directors authorized the repurchase by the Corporation of its shares at such times and prices and in such amounts as deemed advisable. During the past year, the Corporation's stock sold on The New York Stock Exchange at prices which were 11% to 26% below the corresponding net asset values per share.

It is presently contemplated that the purchases made pursuant to the repurchase program will be made on or off the New York Stock Exchange. Any shares repurchased will be retired. No shares will be repurchased by the Corporation until after March 2, 1977, the payment date of the distribution referred to above. All purchases will be made at prices representing discounts from net asset value per share and not in excess of either the highest current independent bid or the last sale price on the New York Stock Exchange, plus a negotiated commission. Shares repurchased as a result of this program will be reported in the Corporation's reports to stockholders.

On December 31, 1976 Mr. F. Warren Hellman's resignation as Chairman of the Board of the Corporation became effective. We are glad to report that Mr. Hellman will continue to serve as a member of the Board of Directors, although we regret that his other business responsibilities made it necessary for him to relinquish his duties as Chairman of the Board. Mr. George H. Heyman, Jr. was elected Chairman of the Board effective January 1, 1977. Mr. Heyman continues as Chairman of the Investment Committee, Managing Director and a member of the Board of Directors of Lehman Brothers Incorporated. He is also President and Director of both The One William Street Fund, Inc. and Lehman Capital Fund, Inc.

The Annual Meeting of Stockholders of the Corporation will be held this year on Tuesday, April 19, 1977. A notice of the meeting will be mailed to each stockholder early in March.

At December 31, 1976 there were 42,921 shareholders of record of the Corporation. We want to take this opportunity to welcome our new stockholders and express our appreciation to all our loyal stockholders for their continued interest and support.


Chairman of the Board


President

Investment Policy

THE LEHMAN CORPORATION'S INVESTMENT POLICY for many years has been to invest its assets in equity securities of companies which we believe to be well-managed and to have strong positions within industries that have the potential to grow faster than the economy as a whole. From time-to-time our opinion changes with respect to the areas we believe offer the most favorable investment opportunities. Thus, several years ago we eliminated completely one of our largest industry positions and in recent years we have substantially added to other industries. Although industry emphasis will undoubtedly continue to vary due to changing economic, social and political conditions in the future, the common thread of the Corporation's investment philosophy will remain one of seeking out and investing in common stocks of well-managed, favorably situated companies that we expect will show above-average earnings growth over a period of years. At the same time we also seek investment opportunities in securities that we consider are selling at prices substantially less than their intrinsic value. In addition, in seeking out securities for the portfolio we are mindful of the income needs of our stockholders.

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 sell near the bottom by becoming too pessimistic about stocks when their prices are declining or buy near the top by becoming overly optimistic when their prices are rising. In our opinion this natural propensity of investors may be the most important factor in explaining the poor long-term investment performance 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.

The above factors have often resulted in the Corporation's portfolio turnover rate being relatively low since, to the extent we have invested in the right companies and the right industries, we should not have to trade in and out too often. A relatively low portfolio turnover rate also results from not attempting to guess market or economic cycles by continually shifting from a fully invested to a partially invested position. This does not mean, though, that we do not reappraise our major holdings, take profits (or losses) from time-to-time and raise cash to reinvest in newly emerging areas of interest, consonant with our aforementioned investment policy.

**Dividend
Policy**

IT IS THE POLICY of The Lehman Corporation to declare in dividends each year substantially all of its taxable income and realized capital gains. The present intention is to make regular cash dividend payments from net investment income for the first three quarters of the year (the current quarterly rate being 7½ cents per share), and to distribute any excess over the total amount of these three regular payments and all realized capital gains after the close of the year.

It is also intended when market conditions permit to give stockholders the option of receiving the capital gain distribution and the final dividend from investment income for the year in stock at the lower of the net asset value or market price, or both dividends in cash.

For Federal income tax purposes, dividends from investment income are taxable to stockholders as ordinary dividend income. Dividends paid from realized net long-term capital gains are designated as "capital gain dividends" and whether received in stock or cash are taxable to stockholders as long-term capital gains.

**Five-Year
Record of
a Share
of Stock**

**Five-Year Record of One Share Assuming
Capital Gain Distributions were . . .**

Year	Taken in Cash			Taken in Shares*		
	Income Dividends	Capital Gain Distribution	Net Asset Value Dec. 31st	Value of Capital Gain Distributions**	Total Value of Investment	Income Dividends
1971	(Net Asset Value at Beginning)			—	\$17.87	—
1972	\$.305	\$1.27	20.47	\$1.46	21.93	\$.31
1973	.295	.84	16.50	2.08	18.58	.32
1974	.305	.42	10.77	1.83	12.60	.34
1975	.27	.67	13.15	3.02	16.17	.32
1976	.225†	— †	15.08	3.46	18.54	.28
	<u>\$1.400</u>	<u>\$3.20</u>				<u>\$1.57</u>

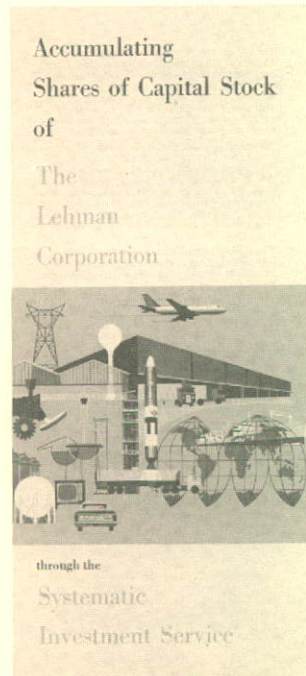
*Shares were issued in payment of the capital gain distribution for 1972 at a price of \$17.75. The capital gain distributions for 1973 through 1975, which were paid in cash, were assumed to have been reinvested at the net asset values at year-end. No adjustments have been made for income taxes payable by shareholders. During the period the market price of the stock was below net asset value; 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.

**Cumulative

†See Note (6), page 18.

Systematic Investment Service

THE SYSTEMATIC INVESTMENT SERVICE offers registered stockholders an excellent way to increase their holdings of the Corporation's stock. The Service consists of a dividend reinvestment plan and a cash payment plan. By participating in the dividend reinvestment plan all your Lehman distributions are reinvested automatically in additional shares. By participating in the cash payment plan you may send in cash payments for investment.



More than one of each four registered stockholders of The Lehman Corporation are currently participating in the Systematic Investment Service in order to increase their holdings of the Corporation's stock. If your investment in Lehman shares was made with the idea of building your capital, rather than producing income to meet current expenses, you too may wish to participate.

Automatic reinvestment of dividends has proven especially helpful to individual stockholders who wish to build up their capital with a specific future purpose in mind such as the education of their children, making special gifts or building up a retirement fund. Attainment of such goals may be accelerated by cash payments sent in for investment on a regular monthly or quarterly basis or at other times when it is convenient to do so.

You may obtain additional information about the Systematic Investment Service by writing to: The Lehman Corporation,
One South William Street, New York, New York 10004.

**Largest
Stock
Holdings**

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1976 are listed below. Included in the list are five investments in the Energy and Energy Servicing industries, two in Office Equipment and one investment each in the Health Care, Financial Services and Natural Resources industries. The total cost of these investments amounted to \$33,117,218.

	Shares	Market Value
International Business Machines Corporation . . .	122,500	\$ 34,192,812
Halliburton Company	190,000	12,373,750
Phillips Petroleum Company	175,000	11,571,875
General Reinsurance Corporation	60,000	11,520,000
Kerr-McGee Corporation	150,000	10,256,250
Standard Oil Company (Ohio)	130,000	9,977,500
Merck & Co., Inc.	138,000	9,401,250
Atlantic Richfield Company	160,000	9,240,000
Digital Equipment Corporation	150,000	8,081,250
Weyerhaeuser Company	170,000	7,905,000
TOTAL (equal to 26.3% of total net assets)		<u>\$124,519,687</u>

**Diversification
of Net Assets**

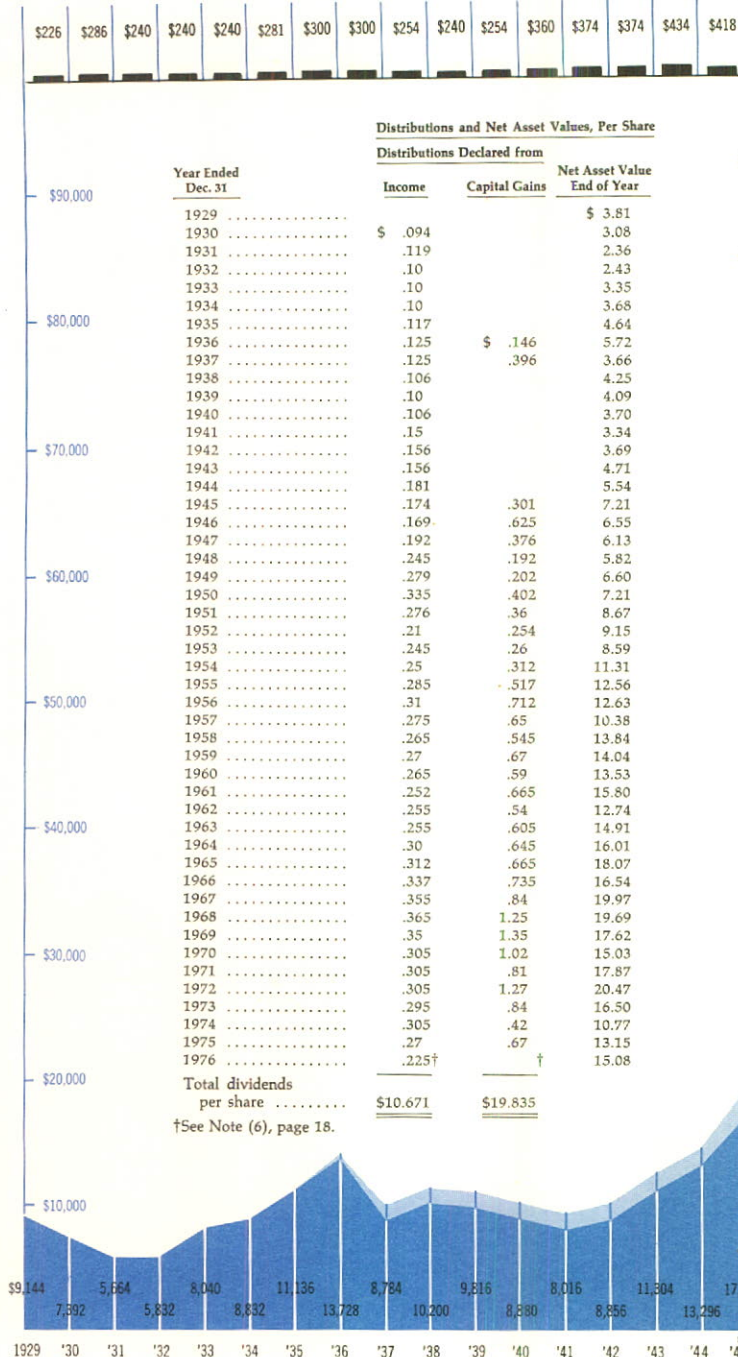
December 31, 1976

THE DIVERSIFICATION of the net assets of the Corporation by industry groups at December 31, 1976 is shown in the following statement which also compares the percentage of the Corporation's net assets invested in these industries at that date with the percentages invested in the same industries at the end of the two preceding years.

	<u>Cost</u>	<u>Value</u>	<u>Percentage of Net Assets December 31,</u>		
			<u>1976</u>	<u>1975</u>	<u>1974</u>
Stocks					
Building & Construction	\$ 11,577,067	\$ 6,696,875	1.4%	1.7%	1.5%
Chemical	23,839,428	30,991,750	6.5	7.1	6.7
Consumer Products & Services	39,451,518	48,609,654	10.3	11.6	7.9
Electronics & Electrical Equipment	21,915,969	37,773,075	8.0	8.7	8.5
Energy	30,328,264	63,543,875	13.4	15.8	18.7
Energy Servicing	8,748,788	22,028,750	4.7	4.5	4.7
Financial Services	17,023,301	29,127,254	6.2	3.2	3.4
Food & Beverage	8,136,801	10,323,750	2.2	3.1	2.1
Health Care	28,956,274	38,000,500	8.0	10.0	12.3
Natural Resources	19,565,505	34,561,500	7.3	8.2	5.7
Office Equipment	21,068,885	59,125,312	12.5	13.1	12.8
Packaging	4,828,680	6,420,000	1.4	1.2	2.4
Retail	15,655,185	21,558,125	4.6	5.0	3.0
Transportation	24,520,958	14,902,750	3.1	2.3	2.7
Miscellaneous	10,549,510	9,404,375	2.0	3.5	3.8
Total Investments in Stocks	<u>\$286,166,133</u>	<u>\$433,067,545</u>	91.6	99.0	96.2
Cash and Other Assets (Net of liabilities)		<u>39,894,280</u>	<u>8.4</u>	<u>1.0</u>	<u>3.8</u>
Total Net Assets		<u>\$472,961,825</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Record of an
Investment in
The Lehman
Corporation**

**INCOME
DIVIDENDS**



†See Note (6), page 18.

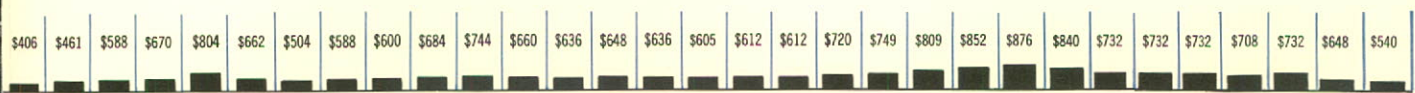
COST OF INVESTMENT
SEPT. 24, 1929
\$10,400

INITIAL NET ASSET VALUE
\$10,000

CAPITAL GAIN DISTRIBUTIONS { ANNUAL CUMULATIVE

Year	Annual	Cumulative
1929	—	—
'30	—	—
'31	—	—
'32	—	—
'33	—	—
'34	—	—
'35	—	—
'36	\$350	950
'37	—	1,300
'38	—	1,300
'39	—	1,300
'40	—	1,300
'41	—	1,300
'42	—	1,300
'43	—	1,300
'44	—	1,300
'45	—	1,300
'46	—	1,300
'47	—	1,300
'48	—	1,300
'49	—	1,300
'50	—	1,300
'51	—	1,300
'52	—	1,300
'53	—	1,300
'54	—	1,300
'55	—	1,300
'56	—	1,300
'57	—	1,300
'58	—	1,300
'59	—	1,300
'60	—	1,300
'61	—	1,300
'62	—	1,300
'63	—	1,300
'64	—	1,300
'65	—	1,300
'66	—	1,300
'67	—	1,300
'68	—	1,300
'69	—	1,300
'70	—	1,300
'71	—	1,300
'72	—	1,300
'73	—	1,300
'74	—	1,300
'75	—	1,300
'76	—	1,300
'77	—	1,300
'78	—	1,300
'79	—	1,300
'80	—	1,300
'81	—	1,300
'82	—	1,300
'83	—	1,300
'84	—	1,300
'85	—	1,300
'86	—	1,300
'87	—	1,300
'88	—	1,300
'89	—	1,300
'90	—	1,300
'91	—	1,300
'92	—	1,300
'93	—	1,300
'94	—	1,300
'95	—	1,300
'96	—	1,300
'97	—	1,300
'98	—	1,300
'99	—	1,300
2000	—	1,300
2001	—	1,300
2002	—	1,300
2003	—	1,300
2004	—	1,300
2005	—	1,300
2006	—	1,300
2007	—	1,300
2008	—	1,300
2009	—	1,300
2010	—	1,300
2011	—	1,300
2012	—	1,300
2013	—	1,300
2014	—	1,300
2015	—	1,300
2016	—	1,300
2017	—	1,300
2018	—	1,300
2019	—	1,300
2020	—	1,300
2021	—	1,300
2022	—	1,300

This chart shows the results of an investment in 100 shares of the originally issued stock of The Lehman Corporation (equivalent to 2400 present shares after adjustment for stock splits) over the 47 years since its establishment in 1929 assuming all distributions were taken in cash. This record should under no circumstances be construed as an indication of future performance.

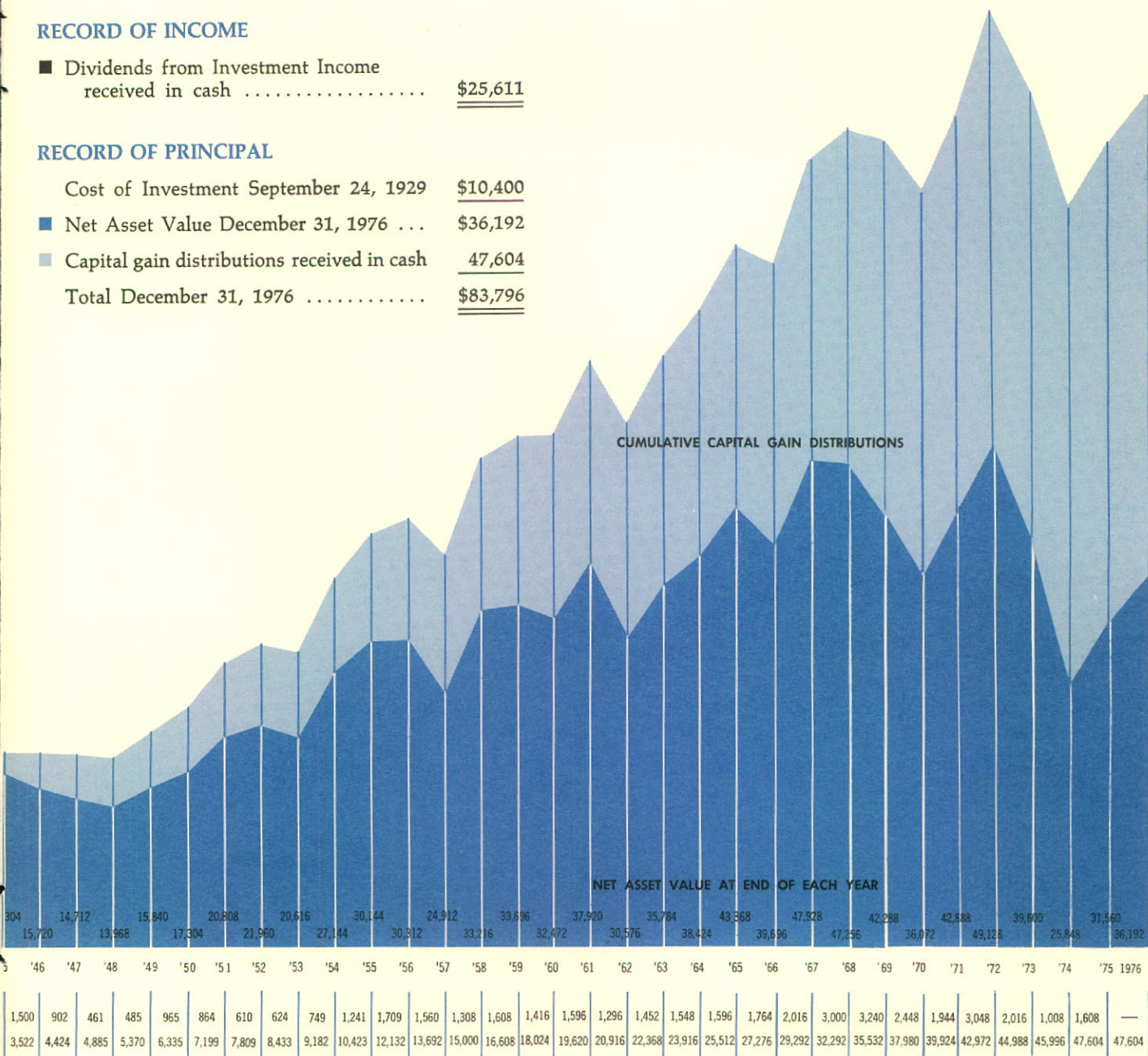


RECORD OF INCOME

■ Dividends from Investment Income received in cash \$25,611

RECORD OF PRINCIPAL

Cost of Investment September 24, 1929 \$10,400
 ■ Net Asset Value December 31, 1976 ... \$36,192
 ■ Capital gain distributions received in cash 47,604
 Total December 31, 1976 \$83,796



1,500	902	461	485	965	864	610	624	749	1,241	1,709	1,560	1,308	1,608	1,416	1,596	1,296	1,452	1,548	1,596	1,764	2,016	3,000	3,240	2,448	1,944	3,048	2,016	1,008	1,608	—
3,522	4,424	4,885	5,370	6,335	7,199	7,809	8,433	9,182	10,423	12,132	13,692	15,000	16,608	18,024	19,620	20,916	22,368	23,916	25,512	27,276	29,292	32,292	35,532	37,980	39,924	42,972	44,988	45,996	47,604	47,604

**The
Corporation
and its
Management**

THE LEHMAN CORPORATION is a closed-end investment company established in September, 1929. Its shares are listed on the New York Stock Exchange and major stock exchanges in Europe. The Corporation's Board of Directors which determines its policies, is composed of twenty-one leading industrialists and financiers, with wide experience and an intimate knowledge of business and investment. Eight of these directors are officers of Lehman Management Co., Inc., the Corporation's investment adviser, or its parent Lehman Brothers Incorporated and thirteen are not connected with Lehman Brothers Incorporated or its subsidiaries.

Lehman Management Co., Inc., a wholly-owned subsidiary of Lehman Brothers Incorporated, acts as the Corporation's investment adviser under a management agreement. Lehman Brothers Incorporated or its predecessor has been active in business since 1850.

The management agreement became effective on April 1, 1975 and provides that Lehman Management Co., Inc. at its expense will provide the Corporation with investment research and administrative services. The management company has approximately 40 full time officers and employees including a group of experienced security analysts who make continuous studies of investment opportunities and keep in close touch with the industries and companies in which the Corporation has, or may have, an interest.

The agreement further provides that the Corporation will pay a quarterly fee to the management company based upon the following annual percentages of the Corporation's average daily net assets: first \$25 million—none; next \$175 million—.50%; next \$300 million—.30%; next \$250 million—.25%; excess over \$750 million—.20%.

A copy of the management agreement will be mailed to stockholders upon request.

Lehman Management Co., Inc. also acts as investment manager for The One William Street Fund, Inc. and Lehman Capital Fund, Inc., open-end investment companies.

**Portfolio of
Investments**

December 31, 1976

STOCKS

Number of Shares		Value ^(a)
Building & Construction		
90,000	Fedders Corporation	\$ 675,000
110,000	Robertshaw Controls Company	2,543,750
175,000	Ryan Homes, Inc.	<u>3,478,125</u>
		6,696,875
Chemical		
220,000	Air Products and Chemicals, Inc.	7,782,500
100,000	Betz Laboratories, Inc.	2,750,000
150,000	Big Three Industries, Inc.	5,100,000
110,000	Lubrizol Corporation	3,960,000
70,000	National Chemsearch Corporation	1,601,250
130,000	Petrolite Corporation	5,752,500
22,000	Raychem Corporation	2,508,000
100,000	Zoecon Corporation	<u>1,537,500</u>
		30,991,750
Consumer Products & Services		
50,000	American Broadcasting Companies, Inc.	1,975,000
34,500	ARA Services, Inc.	1,725,000
50,000	Avon Products, Inc.	2,475,000
110,000	Black and Decker Manufacturing Company...	2,213,750
100,000	Block (H. & R.), Inc.	2,325,000
150,000	Chesebrough-Pond's Inc.	3,750,000
78,282	Dart Industries, Inc.	2,700,729
75,000	Eastman Kodak Company	6,450,000
200,000	Host International, Inc.	2,325,000
128,000	Marriott Corporation	1,776,000
110,000	McDonald's Corporation	5,871,250
150,000	New York Times Company "A"	2,456,250
130,000	Nielsen (A.C.) Company "A"	2,973,750
63,600	Philip Morris Incorporated	3,927,300
155,000	Pizza Hut, Inc.	4,281,875
135,000	Viacom International Inc.	<u>1,383,750</u>
		48,609,654

For explanation of notes (a) and (b), see page 14.

Portfolio of Investments
(continued)

STOCKS

Number of Shares		Value ^(a)
Electronics & Electrical Equipment		
75,000	AMP Incorporated	\$ 2,118,750
155,400	Beckman Instruments, Inc.	4,351,200
130,000	General Electric Company	7,231,250
35,000	Hewlett-Packard Company	3,053,750
100,000	National Semiconductor Corporation	2,787,500
150,000	Perkin-Elmer Corporation	3,150,000
85,000	RCA Corporation	2,284,375
100,000	Spectra-Physics, Inc.	1,500,000
90,000	Tektronix, Inc.	6,165,000
50,000	Texas Instruments Incorporated	5,131,250
		<u>37,773,075</u>
Energy		
160,000	Atlantic Richfield Company	9,240,000
80,000	Bow Valley Industries Ltd.	1,750,000
50,000	Canadian Superior Oil Ltd.	2,031,250
150,000	Dome Petroleum Limited	6,150,000
400	Gas Properties, Inc. (100% owned)	742,000(b)
150,000	Kerr-McGee Corporation	10,256,250
50,000	Magma Power Company	393,750
140,000	Mesa Petroleum Co.	5,075,000
175,000	Phillips Petroleum Company	11,571,875
100,000	Pittston Company	3,562,500
125,000	Quaker State Oil Refining Corporation	2,468,750
130,000	Standard Oil Company (Ohio)	9,977,500
	Oil Royalty Interests	325,000(b)
		<u>63,543,875</u>
Energy Servicing		
125,000	Bucyrus-Erie Company	3,390,625
190,000	Halliburton Company	12,373,750
65,000	Schlumberger Limited	6,264,375
		<u>22,028,750</u>
Financial Services		
85,000	American Re-Insurance Company	1,901,875
150,000	Crum & Forster	4,668,750
200,000	Farmers Group, Inc.	4,550,000
126,787	First Charter Financial Corporation	2,155,379
60,000	General Reinsurance Corporation	11,520,000
150,000	Hall (Frank B.) & Co. Inc.	3,206,250
20,000	Morgan (J.P.) & Co. Incorporated	1,125,000
		<u>29,127,254</u>

Portfolio of Investments
(continued)

STOCKS

Number of Shares		Value(a)
Food & Beverage		
50,000	Coca-Cola Company	\$ 3,950,000
125,000	Dr Pepper Company	1,781,250
110,000	Heublein, Inc.	4,592,500
		<u>10,323,750</u>
Health Care		
75,000	American Hospital Supply Corporation	2,306,250
10,000	Bausch & Lomb Incorporated	291,250
100,000	Baxter Travenol Laboratories, Inc.	4,050,000
60,000	Bristol-Myers Company	4,102,500
125,000	Hospital Corporation of America	3,250,000
46,000	Johnson & Johnson	3,588,000
35,000	Lilly (Eli) and Company	1,666,875
138,000	Merck & Co., Inc.	9,401,250
35,000	SmithKline Corporation	2,778,125
105,000	Squibb Corporation	3,097,500
150,000	Syntex Corporation	3,468,750
		<u>38,000,500</u>
Natural Resources		
20,000	AMAX Inc.	1,195,000
136,200	Cyprus Mines Corporation	3,405,000
90,000	Kimberly-Clark Corporation	3,960,000
204,000	Louisiana-Pacific Corporation	3,646,500
50,000	Potlatch Corporation	3,550,000
80,000	Reynolds Metals Company	3,200,000
150,000	Texasgulf Inc.	4,368,750
50,000	Union Camp Corporation	3,331,250
170,000	Weyerhaeuser Company	7,905,000
		<u>34,561,500</u>
Office Equipment		
80,000	Burroughs Corporation	7,330,000
150,000	Digital Equipment Corporation	8,081,250
122,500	International Business Machines Corporation ..	34,192,812
100,000	NCR Corporation	3,750,000
135,000	Sperry Rand Corporation	5,771,250
		<u>59,125,312</u>
Packaging		
80,000	Maryland Cup Corporation	2,300,000
103,000	Signode Corporation	4,120,000
		<u>6,420,000</u>

Portfolio of Investments
(continued)

STOCKS

Number of Shares		Value ^(a)
	Retail	
65,000	Associated Dry Goods Corporation	\$ 2,153,125
175,000	Kresge (S. S.) Company	7,131,250
50,000	Lafayette Radio Electronics Corporation	431,250
125,000	Lowe's Companies, Inc.	3,750,000
125,000	Payless Cashways, Inc.	3,812,500
110,000	Wal-Mart Stores, Inc.	1,705,000
100,000	Woolworth (F. W.) Co.	2,575,000
		<u>21,558,125</u>
	Transportation	
200,000	Airborne Freight Corporation	2,900,000
125,000	American Airlines, Inc.	1,687,500
206,000	Braniff International Corporation	2,240,250
220,000	Continental Air Lines, Inc.	1,512,500
100,000	Emery Air Freight Corporation	3,737,500
200,000	Ryder System, Inc.	2,825,000
		<u>14,902,750</u>
	Miscellaneous	
65,000	Avery International Corporation	1,413,750
70,000	FMC Corporation	1,715,000
140,000	International Flavors & Fragrances Inc.	3,097,500
55,000	Singer Company	1,106,875
	Other Stocks	2,071,250
		<u>9,404,375</u>
	Total Investments in Stocks	<u>\$433,067,545</u>

**CORPORATE
SHORT-TERM
NOTES**

Face Amount (in thousands)		Cost plus discount earned
\$ 3,000	Ford Motor Credit Company	\$ 2,997,812
3,800	General Electric Credit Corporation	3,796,108
14,700	Illinois Bell Telephone Company	14,671,237
3,600	Northwestern Bell Telephone Company	3,596,945
16,900	Sears Roebuck Acceptance Corporation	16,858,946
	Total Corporate Short-Term Notes	<u>\$ 41,921,048</u>

Notes:

- (a) Unless otherwise indicated, market values are based on the last reported sale on December 31, 1976, 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 the directors—not currently quoted.

Portfolio Changes

Listed below are the Corporation's portfolio changes during the three months ended December 31, 1976. Included in the list are certain securities purchased in prior quarters which were carried under the caption "Other Stocks" in previous reports. Securities in process of accumulation, which are carried under that caption on page 14, are not shown.

ADDITIONS

	Shares Increased	Shares Held Dec. 31, 1976
Beckman Instruments, Inc.	5,400	155,400
Betz Laboratories, Inc.	30,000	100,000
Big Three Industries, Inc.	20,000	150,000
Black and Decker Manufacturing Company	10,000	110,000
Emery Air Freight Corporation	5,000	100,000
General Electric Company	130,000*	130,000
Johnson & Johnson	5,000	46,000
Morgan (J.P.) & Co. Incorporated	20,000	20,000
National Semiconductor Corporation	15,000	100,000
New York Times Company "A"	25,000	150,000
Raychem Corporation	2,000	22,000
SmithKline Corporation	35,000	35,000
Wal-Mart Stores, Inc.	110,000	110,000
Zoecon Corporation	100,000	100,000

REDUCTIONS

	Shares Decreased	Shares Held Dec. 31, 1976
American Broadcasting Companies, Inc.	18,700	50,000
American Hospital Supply Corporation	25,000	75,000
AMP Incorporated	7,000	75,000
Carrier Corporation	150,000	—
Chesebrough-Pond's Inc.	25,000	150,000
Hewlett-Packard Company	10,000	35,000
International Paper Company	50,000	—
Lilly (Eli) and Company	15,000	35,000
Marriott Corporation	4,456	128,000
Merck & Co., Inc.	2,000	138,000
Phillips Petroleum Company	9,000	175,000
Reynolds Metals Company	10,000	80,000
Signode Corporation	9,500	103,000
Texasgulf Inc.	50,000	150,000
Texas Instruments Incorporated	4,000	50,000
Trans World Airlines, Inc.	70,000	—
Union Camp Corporation	5,000	50,000
Xerox Corporation	50,000	—

*Received in exchange for 100,000 shares of Utah International Inc.

**Statements of
Operations**

INVESTMENT INCOME

	Year Ended	
	December 31, 1976	December 31, 1975 (Reclassified— Note 7)
Income:		
Dividends	\$ 8,562,855	\$ 8,176,854
Interest	1,543,880	2,382,661
Oil Royalties and Other Income	203,453	228,036
	<u>10,310,188</u>	<u>10,787,551</u>
Expenses:		
Management Fee (Note 7)	1,661,345	1,592,872
Transfer and Dividend Paying Services	178,578	190,338
Annual Meeting and Shareholder Reports	126,223	135,017
Directors' Fees	60,000	67,500
Custody of Securities	50,150	65,405
Legal and Auditing Fees	47,524	43,409
Miscellaneous	79,249	51,429
Franchise and Other Taxes	79,000	68,508
	<u>2,282,069</u>	<u>2,214,478</u>
Net Investment Income (Notes 4 & 5) ...	<u>\$ 8,028,119</u>	<u>\$ 8,573,073</u>

**REALIZED GAIN AND CHANGE IN
NET UNREALIZED APPRECIATION**

Realized Gain from Security Transactions:		
Proceeds from Securities Sold	\$ 88,016,076	\$ 46,226,257
Less Cost of Securities Sold	<u>55,878,796</u>	<u>26,106,064</u>
Realized Gain	32,137,280	20,120,193
Less Provision for State and City Taxes	209,000	111,000
Net Realized Gain from Security Transactions	<u>31,928,280</u>	<u>20,009,193</u>
Net Unrealized Appreciation of Investments:		
Beginning of Period	118,037,639	42,364,341
End of Period	<u>145,766,412</u>	<u>118,037,639</u>
Change in Net Unrealized Appreciation of Investments	<u>27,728,773</u>	<u>75,673,298</u>
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 3, 4 & 5)	<u>\$ 59,657,053</u>	<u>\$ 95,682,491</u>

See Notes to Financial Statements

**Statement of
Assets and
Liabilities**

	<u>December 31, 1976</u>	<u>December 31, 1975</u>
ASSETS		
Investments in Stocks at Market or Fair Value (average cost 1976—\$286,166,133; 1975—\$288,970,319)	\$433,067,545	\$408,001,958
Corporate Short-Term Notes at cost plus discount earned	41,921,048	43,675,497
Certificates of Deposit at cost	—	1,000,113
Cash	335,705	467,857
Receivable for Securities Sold	941,776	20,100
Dividends and Interest Receivable	544,163	542,142
Total Assets	<u>476,810,237</u>	<u>453,707,667</u>
LIABILITIES		
Final Dividend from Investment Income and Capital Gain Dividend for the Year Payable in Cash (Note 6)	—	22,417,592
Payable for Securities Purchased	245,809	288,813
Deposits on Securities Loaned	1,863,700	17,032,500
Management Fee Payable	411,311	391,415
Accrued Expenses and Taxes	192,592	252,207
Provision for State and City Taxes on Unrealized Appreciation	1,135,000	994,000
Total Liabilities	<u>3,848,412</u>	<u>41,376,527</u>
NET ASSETS	<u>\$472,961,825</u>	<u>\$412,331,140</u>
Shares of Capital Stock \$1.00 par value, Authorized 40,000,000; Outstanding...	31,353,275	31,353,275
Net Asset Value Per Share	\$15.08	\$13.15

**Statement of
Changes in
Net Assets**

	<u>Year Ended</u>	
	<u>December 31, 1976</u>	<u>December 31, 1975</u>
From Investment Activities:		
Net Investment Income	\$ 8,028,119	\$ 8,573,073
Dividends from Investment Income (Note 6)	(7,054,487)	(8,465,384)
Net Realized Gain	31,928,280	20,009,193
Distribution from Realized Gain (Note 6) ..	—	(21,006,694)
Change in Net Unrealized Appreciation ..	27,728,773	75,673,298
Change in Net Assets	<u>60,630,685</u>	<u>74,783,486</u>
Net Assets at Beginning of Period	<u>412,331,140</u>	<u>337,547,654</u>
Net Assets at End of Period	<u>\$472,961,825</u>	<u>\$412,331,140</u>

See Notes to Financial Statements

**Notes to
Financial
Statements
Including
Significant
Accounting
Policies**

(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 (see note a, page 14), corporate short-term notes are carried at cost plus discount earned and certificates of deposit are carried at cost. Security transactions are recorded on the trade date. Dividend income and dividends payable are recorded on the "ex-dividend" date.

(3) For accounting purposes, gains or losses on sales of securities are based on average cost. For Federal 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, 1976 amounted to \$31,663,270 and the net unrealized appreciation at that date (after provision for State and City taxes) amounted to \$154,678,368.

(4) New York State Franchise and New York City General Corporation taxes have been provided on net investment income, realized gain and unrealized appreciation. The net unrealized appreciation on page 16 is after deducting provision for such taxes of \$1,135,000 at December 31, 1976 and \$994,000 at December 31, 1975.

(5) 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 of income and capital gains sufficient to relieve it from substantially all Federal income taxes.

(6) On January 18, 1977 the Board of Directors declared an income dividend of \$.02 per share and a capital gain dividend of \$1.01 per share from net investment income and capital gains realized during the year 1976. Previously, the final income dividend and the capital gain dividend were declared by the Board of Directors in December of each year.

(7) Under the terms of a management agreement between the Corporation and Lehman Brothers that expired on March 31, 1975, the firm managed the Corporation, subject to its Board of Directors and for these services received compensation of \$112,500 for the three months ended on that date. Until March 31, 1975, the Corporation maintained its own business and research organization and paid all expenses related thereto in accordance with this agreement. A total of \$283,922 of such expenses for the year 1975 have been included under the caption "Management Fee" in the Investment Income Statement on page 16. This amount consists of salaries of \$179,834, employees thrift and retirement expenses of \$25,380, rent and related services of \$20,394, electronic data processing and other research of \$18,073, payroll taxes of \$14,277 and other expenses of \$25,964. Effective April 1, 1975, the Corporation entered into a new management agreement with Lehman Management Co., Inc., a wholly-owned subsidiary of Lehman Brothers Incorporated. The agreement provides that, subject to the Board of Directors of the Corporation, the management company shall manage the investment operations of the Corporation and furnish it with management and other services. The agreement also provides that the management company shall furnish the Corporation with office space,

pay the compensation of its officers and employees and assume certain other expenses previously paid by the Corporation. The management fee, payable quarterly, for these services is based on the following annual percentages of the Corporation's average daily net assets: first \$25 million—none; next \$175 million—.50%; next \$300 million—.30%; next \$250 million—.25%; excess over \$750 million—.20%. For the year 1976, there accrued to Lehman Management Co., Inc., \$1,661,345 for management services.

(8) During the year 1976, directors, other than those who were officers of the Corporation, Lehman Brothers Incorporated or Lehman Management Co., Inc., were paid fees of \$60,000 for attendance at Directors', Executive and Audit Committee meetings.

(9) The cost of investment securities purchased and proceeds from securities sold during the year 1976, other than corporate short-term notes, aggregated \$53,075,814 and \$88,016,076, respectively.

(10) There are set forth below income and capital changes per share of capital stock of the Corporation for each of the years 1972 to 1976, inclusive.

	1976	1975	1974	1973	1972
Investment Income	\$.33	\$.34	\$.37	\$.36	\$.35
Less Expenses .....	.07	.07	.07	.06	.06
Net Investment Income .....	.26	.27	.30	.30	.29
Dividends from Investment Income	(.225†)	(.27)	(.305)	(.295)	(.305*)
Net Realized Gain and Change in Net Unrealized Appreciation	1.895	3.05	(5.305)	(3.135)	3.885
Distributions from Realized Gains	—†	(.67)	(.42)	(.84)	(1.27)
Net Asset Value Beginning of Period	13.15	10.77	16.50	20.47	17.87
Net Asset Value End of Period	<u>\$15.08</u>	<u>\$13.15</u>	<u>\$10.77</u>	<u>\$16.50</u>	<u>\$20.47</u>
Number of Shares Outstanding End of Period (000's omitted)	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>
Ratio of Expenses to Average Net Assets .....	.50%	.52%	.50%	.34%	.28%
Portfolio Turnover Rate	12%	8%	3%	7%	12%

*Includes \$.02 per share paid from net short-term gains realized during the year.

†See Note (6), page 18.

(11) The following is a summary of quarterly results of operations for 1976:

(Thousands of dollars except for per share amounts)

	Three Months Ended							
	March 31, 1976		June 30, 1976		September 30, 1976		December 31, 1976	
Net Investment Income	\$ 1,836	\$.06	\$ 1,845	\$.06	\$ 2,143	\$.07	\$ 2,204	\$.07
Net Realized Gain and Change in Net Unrealized Appreciation ...	\$57,982	\$1.85	\$ 7,840	\$.25	\$(5,704)	\$(.185)	\$(461)	\$(.02)

**Report of
Independent
Accountants**

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

In our opinion, the accompanying Statements of Assets and Liabilities, Operations, Changes in Net Assets and Portfolio of Investments present fairly the financial position of The Lehman Corporation at December 31, 1976, the results of its operations for the year then ended and the changes in net assets for the two years then ended, in conformity with generally accepted accounting principles consistently applied. Our examination of these statements was 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, 1976 by correspondence with the custodian and others in the case of securities loaned or undelivered in the ordinary course of business.

PRICE WATERHOUSE & CO.

60 Broad Street
New York, N.Y., January 25, 1977

Officers

December 31, 1976

F. Warren Hellman	Chairman of the Board
Robert H. Buckles	President
C. Charles Hetzel	Vice President
Martin L. Roberts	Vice President
Lawrence W. Schmidt	Vice President
Bruce J. Westcott	Vice President
W. L. Williams	Vice President and Treasurer
Boniface A. Zaino	Investment Vice President
Anthony Forlano	Secretary & Assistant Treasurer
Richard Ensling	Assistant Treasurer
Thomas J. Sexton	Assistant Secretary
Barnett Teich	Assistant Secretary and Assistant Treasurer

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

Sullivan & Cromwell Legal Counsel
New York, N.Y.

Price Waterhouse & Co. Independent Accountants
New York, N.Y.

Bankers Trust Company Transfer and Dividend Paying Agent
P.O. Box 43
Bowling Green Station
New York, N.Y. 10004

**The
Lehman
Corporation**

One South William Street
New York, N. Y. 10004

10004
10004