

HOWARD ROSS LIBRARY
OF MANAGEMENT
AUG 27 1981
MCGILL UNIVERSITY

1977 ANNUAL REPORT
LEHMAN
CORPORATION

Board of Directors

- Henry R. Breck** Managing Director of Lehman Brothers Kuhn Loeb 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 Kuhn Loeb Incorporated
- F. Warren Hellman** Managing Director of Lehman Brothers Kuhn Loeb Incorporated
- C. Charles Hetzel** Vice President of the Corporation; Managing Director of Lehman Brothers Kuhn Loeb Incorporated
- George H. Heyman, Jr.** Chairman of the Board of the Corporation; Chairman of the Investment Committee, Managing Director and Director of Lehman Brothers Kuhn Loeb Incorporated
- Ian K. MacGregor** Managing Director and Director of Lehman Brothers Kuhn Loeb Incorporated
- 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 Kuhn Loeb Incorporated
- Peter G. Peterson** Chairman of the Board and President of Lehman Brothers Kuhn Loeb 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** Retired; 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

55 Water Street
New York, N. Y. 10041

January 26, 1978

To the Shareholders

Dear Shareholder:

Common stock prices as measured by the Dow Jones and Standard & Poor's unmanaged industrial averages declined 17.3% and 12.4%, respectively, in 1977. Given this general background we are pleased to report that the Corporation's net asset value per share declined only 6.8% after adjustment for the capital gain distribution of \$1.01 per share paid to shareholders on March 2, 1977.

The net asset value of the Corporation's stock as of December 31, 1977 was \$13.12 per share. At the beginning of 1977, the net asset value amounted to \$14.07 per share, after deducting the capital gain dividend referred to above.

The net investment income in 1977 was the highest dollar amount in the Corporation's 48-year history, amounting to \$9,826,875. This compared with \$8,028,119 earned in 1976. The increase was the result of a 20% increase in dividend income.

On January 17, 1978 the Board of Directors declared the final dividend from investment income earned during 1977 amounting to \$.07 per share. At the same meeting, the Board declared a distribution from net gain realized on the sale of investments during the year 1977 amounting to \$.45 per share. The decline in this dividend from last year's \$1.01 reflects, in large measure, the decline in the stock market. This distribution has been designated as a "capital gain dividend" under the Federal Internal Revenue Code. Both dividends are payable February 28, 1978 to holders of record January 27, 1978.

Shareholders 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 the net asset value per share or the average market price on February 14, 1978.

As you know, the Corporation's stock, like the stocks of most other diversified, publicly traded investment companies has been selling at prices below net asset value. During the last quarter of 1977, the Corporation repurchased a total of 90,798 shares of its own capital stock. These shares were

acquired at a total cost of \$927,144 which was 21.1% less than the aggregate net asset value of the shares as of the dates of purchase. The Corporation intends to repurchase shares of its own capital stock in the future when it is deemed advisable. All repurchases will be reported to shareholders in the quarterly reports of the Corporation.

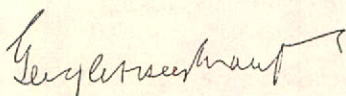
Investors who purchase the Corporation's stock at prices below net asset value acquire larger interests in the Corporation's assets than the amounts they actually pay for the stock. For example, *an investor who purchases stock at a cost of \$800 when the stock is selling at a 20% discount acquires an interest in \$1,000 of assets.* Many shareholders make regular purchases of the Corporation's stock by participating in the Automatic Dividend Reinvestment and Cash Payment Plan. A booklet describing this Plan will be furnished to shareholders upon request.

We are sorry to report that Dr. James M. Hester, Rector of The United Nations University and formerly President of New York University, has resigned as a director of the Corporation, because of his many other responsibilities abroad. His resignation was accepted on December 13, 1977. Dr. Hester served the Corporation as a member of the Board of Directors for almost 14 years and we wish to take this opportunity to extend to him our sincere thanks for his many valuable contributions.

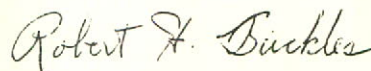
The 49th Annual Meeting of Shareholders of the Corporation will be held on Tuesday, April 18, 1978 in New York City. Notices of the meeting will be mailed in March and we hope that as many shareholders as possible will attend.

At December 31, 1977 there were 42,103 holders of record of the Corporation. We would like to take this opportunity to welcome our new shareholders and express our sincere appreciation to all of our loyal shareholders for their continued interest and support.

Cordially,



George H. Heyman, Jr.
Chairman of the Board



Robert H. Buckles
President

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

Annual Review

As was mentioned in the previous section, the stock market, as measured by the Dow Jones and Standard and Poor's industrial averages, declined significantly during 1977. Some of the factors responsible for the decline were: concern that the economy may be slowing, concern over inflation and higher interest rates, uncertainty over government tax and energy policies and the weakness of the U.S. dollar on international currency markets.

In our opinion, the economy may continue its growth during 1978 and beyond, particularly if some of the uncertainties mentioned above can be removed. In this connection, meaningful tax incentives for business to make new investments and an effective energy program could be particularly helpful in stimulating capital investment, creating new jobs and providing some support for the dollar. If legislation in these important areas can be passed by Congress soon enough, it could prove beneficial to the economy both this year and next.

While, of course, it is not possible to predict the future course of the stock market with any degree of certainty, it appears that a great deal of the uncertainties expressed above have already been discounted by the sharp decline in the market. If so, the market may be well positioned for an upward move if the administration and the monetary authorities are successful in coping with the problems at hand.

How does the management at Lehman operate in this uncertain environment? Our answer to this valid question appears in the Investment Policy section below.

Investment Policy

The Lehman Corporation's investment policy has been to invest a significant portion of 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. But, 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 and dividend growth over a period of time. At the same time we also seek investment opportunities in turnaround situations and in securities that we consider are selling at prices substantially less than their intrinsic value. In seeking out securities for the portfolio we are mindful also of the income needs of our stockholders.

**Investment
Policy**
(continued)

For the main core of our holdings, we look for companies with a high return on their invested capital and an above average rate of growth in real (inflation adjusted) earnings. Such companies are capable of increasing their dividends at an above average rate, while still generating sufficient cash to finance future growth in their businesses. For example, the table below compares the compound annual rates of growth of earnings and dividends per share of stocks in the Corporation's portfolio at December 31, 1977 with stocks comprising the Dow Jones and Standard & Poor's industrials for the five year and ten year periods ended December 31, 1977.

COMPOUND ANNUAL GROWTH RATES

	Period ended December 31, 1977			
	5 Years		10 Years	
	Earnings Per Share	Dividends Per Share	Earnings Per Share	Dividends Per Share
Lehman Portfolio*	16.0%	11.4%	11.8%	8.6%
Dow Jones Industrials	8.3	7.3	6.4	4.3
S&P Industrials	11.4	9.4	7.6	5.4

* Weighted average growth rate of companies in Lehman Corporation's portfolio at December 31, 1977.

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 depressed or buy near the top by becoming overly optimistic when their prices are high. In our opinion this natural propensity of investors may be one of the most important factors in explaining poor long-term investment performance for 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 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.

Investment
Policy
(continued)

How successful has this investment policy been? The results of this policy over the years are illustrated in the table below which compares for each 10 year period since 1957 the Corporation's investment results, 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*
1958-67	145.2%	107.7%	190.1%
1959-68	91.7	61.7	119.5
1960-69	57.3	17.8	99.0
1961-70	64.1	36.2	80.2
1962-71	48.9	21.8	84.0
1963-72	99.8	56.4	166.4
1964-73	37.7	11.5	85.3
1965-74	—14.7	—29.5	12.5
1966-75	2.4	—12.1	23.4
1967-76	40.1	27.9	48.0
1968-77	— .4	— 8.2	9.7
<u>20 Year Period</u>			
1958-77	144.3	90.8	218.2

* 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.

**Largest
Stock
Holdings**

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1977 are listed below. The total market value of these high quality 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, 1977 had an aggregate net asset value of \$13,120 of which 25%, or \$3,280, was invested in these ten securities.

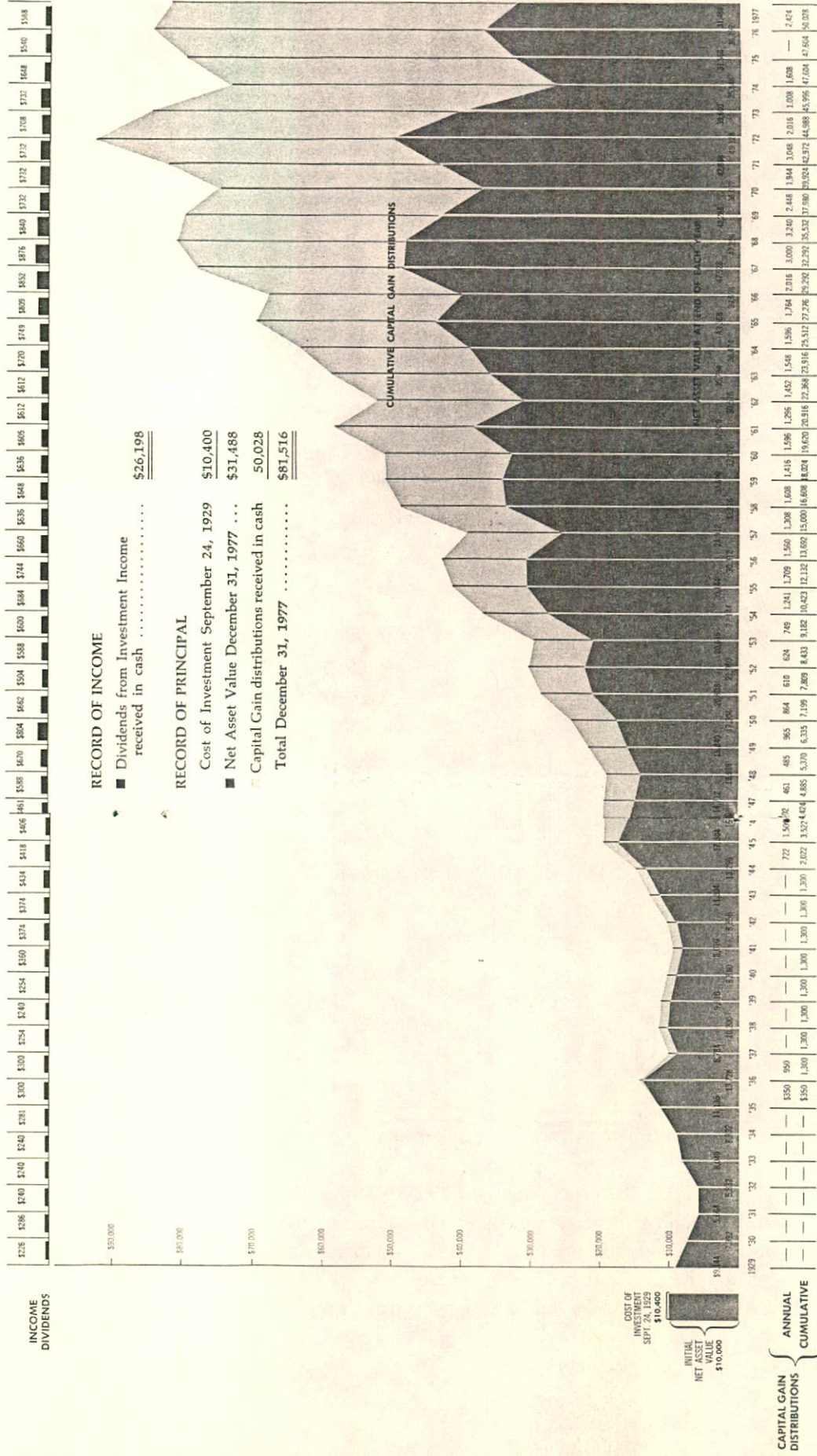
	Shares	Market Value
International Business Machines Corporation . . . <i>Largest manufacturer of information processing systems.</i>	122,500	\$ 33,503,750
Halliburton Company <i>A major factor in oil field, engineering and construction services.</i>	190,000	12,373,750
General Reinsurance Corporation <i>The leading U.S. re-insurer.</i>	60,000	10,200,000
Standard Oil Company (Ohio) <i>A major participant in Alaskan North Slope crude oil reserves.</i>	115,000	8,150,625
Dome Petroleum Limited <i>A major independent crude producer and natural gas processor in Canada.</i>	147,200	8,040,800
Burroughs Corporation <i>Computer systems and office equipment.</i>	100,000	7,287,500
Schlumberger Limited <i>A worldwide oil field services company.</i>	100,000	7,275,000
Kerr-McGee Corporation <i>A leading domestic energy company with interests in oil and gas, coal and uranium.</i>	150,000	7,012,500
Digital Equipment Corporation <i>The leading producer of minicomputers.</i>	150,000	6,937,500
Atlantic Richfield Company <i>An integrated domestic oil company with major Alaskan crude oil exposure.</i>	135,000	6,935,625
TOTAL		<u>\$107,717,050</u>

Diversification
of Net Assets
December 31, 1977

THE DIVERSIFICATION of the net assets of the Corporation by industry groups at December 31, 1977 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>1977</u>	<u>1976</u>	<u>1975</u>
Stocks					
Chemical	\$ 28,262,693	\$ 33,396,500	7.8%	6.5%	7.2%
Consumer Products & Services	28,320,786	30,960,143	7.3	8.3	10.0
Electronics & Electrical Equipment	28,859,390	34,741,250	8.1	8.0	7.6
Energy	29,169,107	52,514,113	12.3	13.4	15.8
Energy Servicing	12,808,013	26,573,100	6.2	4.7	4.5
Financial Services	27,949,582	37,430,875	8.8	6.2	3.2
Food & Beverage	9,288,428	10,571,500	2.5	2.5	3.1
Forest Products	7,596,718	11,294,665	2.6	4.7	5.1
Health Care	31,166,298	37,165,219	8.7	8.2	10.0
Merchandising	13,438,246	21,751,875	5.1	6.7	7.1
Metal & Mining	7,920,698	7,545,625	1.8	2.6	4.2
Office Equipment	24,133,490	58,712,500	13.8	12.5	13.1
Packaging	4,091,398	5,347,225	1.2	1.4	1.2
Transportation	21,512,490	17,299,750	4.1	3.1	2.3
Miscellaneous	20,414,593	15,910,325	3.7	2.8	4.6
Total Investments in Stocks	<u><u>\$294,931,930</u></u>	<u><u>401,214,665</u></u>	<u><u>94.0</u></u>	<u><u>91.6</u></u>	<u><u>99.0</u></u>
Cash and Other Assets (Net of liabilities)		<u><u>25,447,559</u></u>	<u><u>6.0</u></u>	<u><u>8.4</u></u>	<u><u>1.0</u></u>
Total Net Assets		<u><u>\$426,662,224</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

Record of an Investment in The Lehman Corporation



This chart shows the results of an investment in 100 shares of the originally issued stock of Lehman Corporation valued to 2400 present dollars after adjustment for stock splits) over the 48 years since its establishment in 1929 assuming all distributions were taken in full. This record should be viewed as an indication of future performance.

Record of
 a Share
 of Stock

Year Ended Dec. 31	Distributions and Net Asset Value Per Share				
	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
Total dividends	<u>\$10.916</u>	<u>\$20.845</u>			

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

Portfolio of
Investments
December 31, 1977

STOCKS

Number of Shares		Value ^(a)
Chemical		
200,000	Air Products and Chemicals, Inc.	\$ 5,125,000
100,000	Allied Chemical Corporation	4,425,000
150,000	Betz Laboratories, Inc.	5,025,000
160,000	Big Three Industries, Inc.	5,520,000
90,000	Lubrizol Corporation	3,172,500
120,000	National Chemsearch Corporation	2,340,000
130,000	Petrolite Corporation	4,225,000
66,000	Raychem Corporation	<u>3,564,000</u>
		33,396,500
Consumer Products & Services		
150,000	Black and Decker Manufacturing Company...	2,400,000
175,000	Chesebrough-Pond's Inc.	3,893,750
61,700	Cox Broadcasting Corporation	2,252,050
80,630	Dart Industries, Inc.	3,003,468
100,000	Eastman Kodak Company	5,112,500
200,000	Host International, Inc.	2,725,000
102,500	Marriott Corporation	1,204,375
150,000	New York Times Company "A"	2,831,250
130,000	Nielsen (A.C.) Company "A"	2,860,000
63,600	Philip Morris Incorporated	3,935,250
39,600	Viacom International Inc.	<u>742,500</u>
		30,960,143
Electronics & Electrical Equipment		
100,000	Beckman Instruments, Inc.	3,312,500
130,000	General Electric Company	6,483,750
40,000	Intel Corporation	1,800,000
100,000	National Semiconductor Corporation	1,962,500
150,000	Perkin-Elmer Corporation	3,000,000
170,000	RCA Corporation	4,505,000
100,000	Spectra-Physics, Inc.	1,100,000
140,000	Tektronix, Inc.	5,267,500
60,000	Texas Instruments Incorporated	4,410,000
200,000	Zenith Radio Corporation	<u>2,900,000</u>
		34,741,250

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

Portfolio of Investments
(continued)

STOCKS

Number of Shares		Value(a)
	Energy	
135,000	Atlantic Richfield Company	\$ 6,935,625
147,200	Dome Petroleum Limited	8,040,800
400	Gas Properties, Inc. (100% owned)	793,000(b)
150,000	Kerr-McGee Corporation	7,012,500
170,000	Louisiana Land and Exploration Company	3,782,500
52,500	Magma Power Company	505,313
119,500	Mesa Petroleum Co.	4,630,625
200,000	Phillips Petroleum Company	6,125,000
125,000	Quaker State Oil Refining Corporation	1,828,125
115,000	Standard Oil Company (Ohio)	8,150,625
160,000	Texaco Inc.	4,440,000
	Oil Royalty Interests	<u>270,000(b)</u>
		52,514,113
	Energy Servicing	
200,000	Bucyrus-Erie Company	4,300,000
190,000	Halliburton Company	12,373,750
71,900	Ocean Drilling & Exploration Company	2,624,350
100,000	Schlumberger Limited	<u>7,275,000</u>
		26,573,100
	Financial Services	
85,000	American Re-Insurance Company	2,061,250
143,000	Crum & Forster	4,540,250
200,000	Farmers Group, Inc.	4,525,000
250,000	Federal National Mortgage Association	3,718,750
45,000	First Charter Financial Corporation	770,625
60,000	General Reinsurance Corporation	10,200,000
150,000	Hall (Frank B.) & Co. Inc.	3,375,000
75,000	Morgan (J.P.) & Co. Incorporated	3,225,000
170,000	Southeast Banking Corporation	1,827,500
170,000	USLIFE Corporation	<u>3,187,500</u>
		37,430,875
	Food & Beverage	
150,000	Anheuser-Busch, Incorporated	2,962,500
157,500	Archer-Daniels-Midland Company	2,835,000
170,500	PepsiCo, Inc.	<u>4,774,000</u>
		10,571,500

Portfolio of Investments
(continued)

STOCKS

Number of Shares		Value ^(a)
Forest Products		
208,080	Louisiana-Pacific Corporation	\$ 2,705,040
103,000	Potlatch Corporation	2,961,250
33,000	Union Camp Corporation	1,522,125
150,000	Weyerhaeuser Company	<u>4,106,250</u>
		11,294,665
Health Care		
75,000	American Hospital Supply Corporation	1,996,875
10,000	Bausch & Lomb Incorporated	438,750
100,000	Baxter Travenol Laboratories, Inc.	3,800,000
100,000	Bristol-Myers Company	3,362,500
156,250	Hospital Corporation of America	4,199,219
52,000	Johnson & Johnson	3,991,000
150,000	Medtronic, Inc.	2,850,000
105,000	Merck & Co., Inc.	5,827,500
100,000	SmithKline Corporation	4,975,000
105,000	Squibb Corporation	2,506,875
90,000	Upjohn Company	<u>3,217,500</u>
		37,165,219
Merchandising		
175,000	K mart Corporation	4,790,625
50,000	Lafayette Radio Electronics Corporation	306,250
160,000	Lowe's Companies, Inc.	3,640,000
100,000	McDonald's Corporation	5,150,000
250,000	Payless Cashways, Inc.	4,625,000
160,000	Wal-Mart Stores, Inc.	<u>3,240,000</u>
		21,751,875
Metal & Mining		
136,200	Cyprus Mines Corporation	2,553,750
30,000	Reynolds Metals Company	971,250
175,000	Texasgulf Inc.	3,390,625
20,000	United States Steel Corporation	<u>630,000</u>
		7,545,625
Office Equipment		
100,000	Burroughs Corporation	7,287,500
150,000	Digital Equipment Corporation	6,937,500
122,500	International Business Machines Corporation ..	33,503,750
150,000	NCR Corporation	6,056,250
135,000	Sperry Rand Corporation	<u>4,927,500</u>
		58,712,500

Portfolio of Investments
(continued)
STOCKS

Number of Shares		Value ^(a)
	Packaging	
82,400	Maryland Cup Corporation	\$ 2,544,100
75,000	Signode Corporation	2,803,125
		<u>5,347,225</u>
	Transportation	
200,000	Airborne Freight Corporation	3,150,000
206,000	Braniff International Corporation	1,982,750
190,000	Consolidated Freightways, Inc.	4,797,500
206,000	Ryder System, Inc.	3,244,500
150,000	Yellow Freight System, Inc.	4,125,000
		<u>17,299,750</u>
	Miscellaneous	
170,000	Chicago Pneumatic Tool Company	4,165,000
200,000	Ryan Homes, Inc.	3,300,000
55,000	Singer Company	1,106,875
200,000	Williams Companies	3,700,000
	Other Stocks	3,638,450
		<u>15,910,325</u>
	Total Investments in Stocks	<u>\$401,214,665</u>

**CORPORATE
SHORT-TERM
NOTES**

Face Amount (in thousands)		Cost plus discount earned
\$ 6,100	General Electric Credit Corporation	\$ 6,086,062
9,800	Illinois Bell Telephone Company	9,777,435
6,700	Sears Roebuck Acceptance Corporation	6,674,085
6,600	Wisconsin Telephone Company	6,588,574
	Total Corporate Short-Term Notes	<u>\$ 29,126,156</u>

Notes:

- (a) Unless otherwise indicated, market values are based on the last reported sale on December 30, 1977, 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, 1977. 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, 1977
Chesebrough-Pond's Inc.	25,000	175,000
Cox Broadcasting Corporation	61,700	61,700
Federal National Mortgage Association	30,000	250,000
Intel Corporation	40,000	40,000
Louisiana Land and Exploration Company	130,000	170,000
Ocean Drilling & Exploration Company	71,900	71,900
PepsiCo, Inc.	170,500*	170,500
Potlatch Corporation	3,000	103,000
RCA Corporation	40,000	170,000
Reynolds Metals Company	30,000	30,000
Schlumberger Limited	2,500	100,000
Southeast Banking Corporation	170,000	170,000
Texasgulf Inc.	25,000	175,000
Texas Instruments Incorporated	30,000	60,000
United States Steel Corporation	20,000	20,000
Upjohn Company	4,800	90,000
USLIFE Corporation	170,000	170,000
Williams Companies	30,000	200,000
Zenith Radio Corporation	50,000	200,000

REDUCTIONS

	Shares Decreased	Shares Held Dec. 31, 1977
Air Products and Chemicals, Inc.	24,400	200,000
Beckman Instruments, Inc.	60,000	100,000
Block (H. & R.), Inc.	100,000	—
Bristol-Myers Company	20,000	100,000
Coca-Cola Company	78,000	—
Continental Air Lines, Inc.	53,400	—
Dr Pepper Company	62,500	—
Emery Air Freight Corporation	44,700	—
Fedders Corporation	90,000	—
International Flavors & Fragrances Inc.	70,000	—
McDonald's Corporation	10,000	100,000
Merck & Co., Inc.	20,000	105,000
Phillips Petroleum Company	13,800	200,000
SmithKline Corporation	25,000	100,000
Tektronix, Inc.	20,000	140,000
Viacom International Inc.	93,000	39,600

*Received in exchange for 110,000 shares of Pizza Hut, Inc. The Corporation sold 10,000 shares of Pizza Hut, Inc. prior to the exchange.

**Statements of
 Operations**
Investment Income

	<u>Year Ended December 31,</u>	
	<u>1977</u>	<u>1976</u>
Income:		
Dividends	\$ 10,282,311	\$ 8,562,855
Interest	1,594,469	1,543,880
Oil Royalties and Other Income	162,981	203,453
	<u>12,039,761</u>	<u>10,310,188</u>
Expenses:		
Management Fee (Note 6)	1,535,443	1,661,345
Transfer and Dividend Paying Services	234,068	178,578
Shareholder Meeting and Reports	135,834	126,223
Legal and Auditing Fees	70,883	47,524
Directors' Fees	66,500	60,000
Stock Certificates and Listing Fees	56,856	21,614
Custody of Securities	42,366	50,150
Miscellaneous	40,649	57,635
State and City Taxes	30,287	79,000
	<u>2,212,886</u>	<u>2,282,069</u>
Net Investment Income (Note 4)	<u>\$ 9,826,875</u>	<u>\$ 8,028,119</u>
Realized Gain and Change in Net Unrealized Appreciation		
Realized Gain from Security Transactions:		
Proceeds from Securities Sold	\$ 91,937,147	\$ 88,016,076
Less Cost of Securities Sold	<u>81,161,456</u>	<u>55,878,796</u>
Realized Gain	10,775,691	32,137,280
Less Provision for State and City Taxes	<u>45,000</u>	<u>209,000</u>
Net Realized Gain from Security Transactions	<u>10,730,691</u>	<u>31,928,280</u>
Net Unrealized Appreciation of Investments:		
Beginning of Period	145,766,412	118,037,639
End of Period	<u>105,551,735</u>	<u>145,766,412</u>
Change in Net Unrealized Appreciation of Investments	<u>(40,214,677)</u>	<u>27,728,773</u>
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 3 & 4)..	<u>\$ (29,483,986)</u>	<u>\$ 59,657,053</u>

See Notes to Financial Statements

**Statement of
Assets and
Liabilities**

	<u>December 31, 1977</u>	<u>December 31, 1976</u>
Assets		
Investments in Stocks at Market or Fair Value (average cost 1977—\$294,931,930, 1976—\$286,166,133)	\$401,214,665	\$433,067,545
Corporate Short-Term Notes at cost plus discount earned	29,126,156	41,921,048
Cash	1,594,599	335,705
Receivable for Securities Sold	2,485,582	941,776
Dividends Receivable	704,251	544,163
Total Assets	<u>435,125,253</u>	<u>476,810,237</u>
Liabilities		
Payable for Securities Purchased	3,212,181	245,809
Deposits on Securities Loaned	4,054,000	1,863,700
Management Fee Payable	381,388	411,311
Accrued Expenses and Taxes	84,460	192,592
Provision for State and City Taxes on Unrealized Appreciation	731,000	1,135,000
Total Liabilities	<u>8,463,029</u>	<u>3,848,412</u>
Net Assets	<u>\$426,662,224</u>	<u>\$472,961,825</u>
Shares of Capital Stock, \$1.00 par value:		
Authorized	40,000,000	40,000,000
Issued	32,604,547	31,353,275
Held in Treasury	90,798	—
Issued and Outstanding	<u>32,513,749</u>	<u>31,353,275</u>
Net Asset Value Per Share	\$13.12	\$15.08

**Statement of
Changes in
Net Assets**

	<u>Year Ended December 31,</u>	
	<u>1977</u>	<u>1976</u>
From Investment Activities:		
Net Investment Income	\$ 9,826,875	\$ 8,028,119
Dividends from Investment Income (Note 5)	(7,962,683)	(7,054,487)
Net Realized Gain	10,730,691	31,928,280
Distribution from Realized Gain (Note 5) ..	(31,666,808)	—
Change in Net Unrealized Appreciation ..	<u>(40,214,677)</u>	<u>27,728,773</u>
Change in Net Assets from Investment Activities	<u>(59,286,602)</u>	<u>60,630,685</u>
From Capital Share Transactions:		
Value of 1,251,272 Shares Issued in Payment of Final Income and Capital Gain Dividend for 1976	13,914,145	—
Cost of 90,798 Shares Repurchased	(927,144)	—
Change in Net Assets from Capital Share Transactions	<u>12,987,001</u>	<u>—</u>
Change in Net Assets	<u>(46,299,601)</u>	<u>60,630,685</u>
Net Assets at Beginning of Period	472,961,825	412,331,140
Net Assets at End of Period	<u>\$426,662,224</u>	<u>\$472,961,825</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 notes, page 14) and corporate short-term notes are carried at cost plus discount earned. 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, 1977 amounted to \$14,638,188 and the net unrealized appreciation at that date (after provision for State and City taxes) amounted to \$110,716,946.

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

(5) Commencing in 1976, the Board of Directors adopted the policy of considering the declaration of income dividends after the close of each calendar quarter and capital gain dividends after the close of the year. On January 17, 1978 the Board of Directors declared an income dividend of \$.07 per share and a capital gain dividend of \$.45 per share from net investment income and capital gains realized during the year 1977.

(6) The Corporation has a management agreement with Lehman Management Co., Inc., a wholly-owned subsidiary of Lehman Brothers Kuhn Loeb 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. The agreement also provides that the management company shall furnish the Corporation with office space and pay the compensation of its officers and employees. 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 1977, the fee for such management services amounted to \$1,535,443.

(7) During the year 1977, directors, other than those who were officers of the Corporation, Lehman Brothers Kuhn Loeb Incorporated or Lehman Management Co., Inc., were paid fees of \$66,500 for attendance at Directors', Executive and Audit Committee meetings.

(8) The cost of investment securities purchased and proceeds from securities sold during the year 1977, other than corporate short-term notes, aggregated \$89,927,253 and \$91,937,147, respectively.

(9) There are set forth below income and capital changes per share of capital stock of the Corporation for each of the years 1973 to 1977.

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Investment Income	\$.37	\$.33	\$.34	\$.37	\$.36
Less Expenses .....	.07	.07	.07	.07	.06
Net Investment Income .....	.30	.26	.27	.30	.30
Dividends from Investment Income	(.245)	(.225 [†])	(.27)	(.305)	(.295)
Net Realized Gain and Change in Net Unrealized Appreciation	(1.005)	1.895	3.05	(5.305)	(3.135)
Distributions from Realized Gains	(1.01)	— [†]	(.67)	(.42)	(.84)
Net Asset Value Beginning of Period	<u>15.08</u>	<u>13.15</u>	<u>10.77</u>	<u>16.50</u>	<u>20.47</u>
Net Asset Value End of Period	<u>\$13.12</u>	<u>\$15.08</u>	<u>\$13.15</u>	<u>\$10.77</u>	<u>\$16.50</u>
Number of Shares Outstanding End of Year (in thousands) .	<u>32,514</u>	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>
Ratio of Expenses to Average Net Assets .....	.53%	.50%	.52%	.50%	.34%
Portfolio Turnover Rate	23%	12%	8%	3%	7%

[†]See Note (5), page 18.

(10) The following is a summary of quarterly results of operations for the past two years.

(Thousands of dollars except for per share amounts)

	Three Months Ended							
	<u>March 31, 1976</u>		<u>June 30, 1976</u>		<u>September 30, 1976</u>		<u>December 31, 1976</u>	
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)
	<u>March 31, 1977</u>		<u>June 30, 1977</u>		<u>September 30, 1977</u>		<u>December 31, 1977</u>	
Net Investment Income	\$ 2,251	\$.07	\$ 2,111	\$.06	\$ 2,532	\$.08	\$ 2,933	\$.09
Net Realized Gain and Change in Net Unrealized Appreciation ...	\$ (48,450)	\$ (1.59)	\$ 18,776	\$.575	\$ (3,925)	\$ (.125)	\$ 4,115	\$.135

**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, 1977, the results of its operations for the year then ended and the changes in its 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, 1977 by correspondence with the custodian and others in the case of securities loaned or undelivered in the ordinary course of business.

PRICE WATERHOUSE & CO.

153 East 53 Street
New York, N.Y., January 18, 1978

Officers

George H. Heyman, Jr.	Chairman of the Board
Robert H. Buckles	President
C. Charles Hetzel	Vice President
Martin L. Roberts	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
Barnett Teich	Assistant Secretary and Assistant Treasurer
Richard Ensling	Assistant Treasurer
Lehman Management Co., Inc. New York, N.Y.	Investment Adviser
Sullivan & Cromwell New York, N.Y.	Legal Counsel
Price Waterhouse & Co. New York, N.Y.	Independent Accountants
The Bank of New York P.O. Box 11002 New York, N.Y.	Custodian, Transfer and Dividend Paying Agent