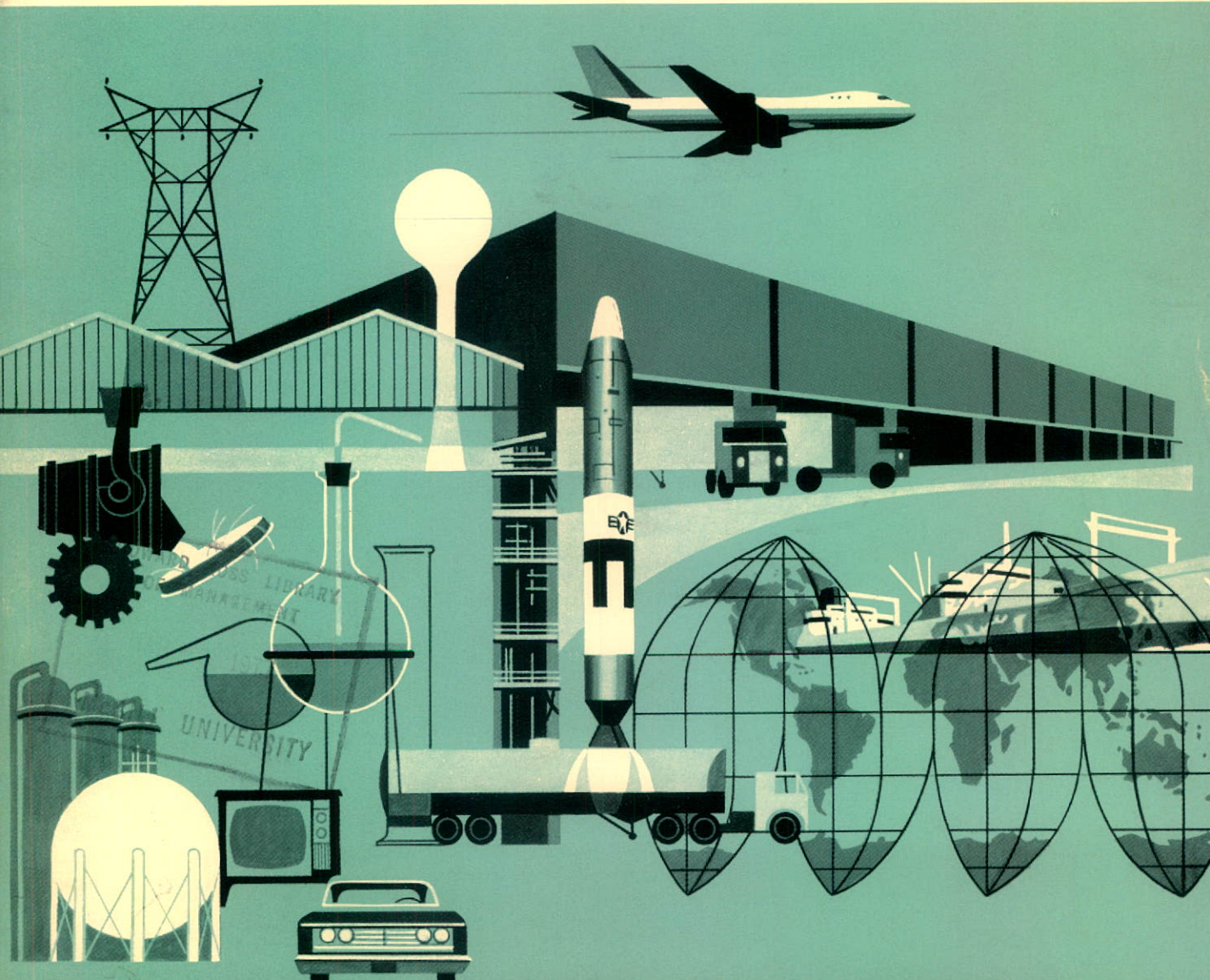


The
Lehman
Corporation

1974 Annual Report



*Board of
Directors*

Henry R. Breck	<i>Managing Director of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
*Robert H. Buckles	<i>President of the Corporation</i>
Charles F. Fogarty	<i>Chairman of the Board of Texasgulf Inc.</i>
James W. Glanville	<i>Managing Director of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
*F. Warren Hellman	<i>Chairman of Executive Committee of the Corporation; President of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
*James M. Hester	<i>President of New York University</i>
C. Charles Hetzel	<i>Vice President of the Corporation; Managing Director of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
Ian K. MacGregor	<i>Chairman of the Board of AMAX, Inc.</i>
John M. Martin	<i>Chairman of the Board of Hercules Incorporated</i>
Alexander N. McFarlane	<i>Honorary Chairman of the Board of CPC International Inc.</i>
*Alvin W. Pearson	<i>Chairman of the Board of the Corporation; Managing Director of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
Peter G. Peterson	<i>Chairman of the Board of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
John W. Reavis	<i>Managing Partner of Jones, Day, Reavis & Pogue (attorneys)</i>
*Andrew G. C. Sage II	<i>Vice Chairman of the Board of Lehman Brothers Incorporated; Partner of Lehman Brothers</i>
William T. Seawell	<i>Chairman of the Board of Pan American World Airways, Inc.</i>
*Lewis P. Seiler	<i>Chairman of the Board of Associated Dry Goods Corporation</i>
F. Ritter Shumway	<i>Honorary Chairman of the Board of Sybron Corporation</i>
Gerald H. Trautman	<i>Chairman of the Board of The Greyhound Corporation</i>
Frazar B. Wilde	<i>Chairman Emeritus of Connecticut General Life Insurance Company</i>

**Member of Executive Committee.*

*The
Lehman
Corporation*

1974 Annual Report

*Financial
Highlights*

	1974	1973
Net Assets at Year End		
Total (millions)	\$337.547	\$517.225
Shares outstanding (millions)	31.353	31.353
Per Share	\$ 10.77	\$ 16.50
Closing Market Price*	\$ 8.375	\$ 13.25
Distributions Per Share for Year		
Income Dividends	\$.305	\$.295
Capital Gain Distribution.....	\$.42	\$.84
Percent Change in Net Asset Value Per Share for Year**	-32.2 %	-15.3 %
Percent Change in Market Price for Year**	-33.6 %	-20.6 %
Ratio of Total Operating Expenses to Average Net Assets	0.50%	0.34%

*Last sale price on New York Stock Exchange on December 31st.

**Adjusted for capital gain distribution declared for year.

January 22, 1975

To the Shareholders:

We submit herewith the Annual Report of The Lehman Corporation for the year 1974.

The total net asset value of the Corporation as of December 31, 1974 amounted to \$337,547,654 after deducting the dividends described below. This is equal to \$10.77 per share on the 31,353,275 shares outstanding. At the beginning of the year, the net asset value amounted to \$16.50 per share.

At a meeting held on December 17, 1974 the Board of Directors declared a distribution of \$.42 per share from net gains realized on the sale of investments during the year. This distribution has been designated as a "capital gain dividend" under the Federal Internal Revenue Code. At the same meeting the Board declared the final dividend from investment income earned during the year amounting to \$.08 per share. These dividends were paid on January 21, 1975 to holders of record December 30, 1974. The total investment income dividends declared during the year 1974 amounted to \$.30½ per share.

During the year 1974 the Dow Jones and Standard & Poor's industrial averages, two widely used, unmanaged indexes of stock prices, declined 27.6% and 29.9%, respectively. By comparison, The Lehman Corporation's net asset value per share, after adding back the capital gain dividend declared on December 17, 1974, declined 32.2%. The market price of the Corporation's stock, after adjustment for the capital gain dividend, declined 33.6%.

We are very pleased to report that Mr. Ian K. MacGregor was elected a director of the Corporation on October 15, 1974. Mr. MacGregor is Chairman of the Board of AMAX, Inc.

During the past year the Board of Directors studied the operating structure of the Corporation including its relationship with the firm of Lehman Brothers. As a result of this study, on January 21, 1975 the directors of the Corporation acted favorably upon a proposal which, if it becomes effective, will make an important change

in this relationship and the Corporation's business and research organization.

The proposal contemplates that the present management agreement with Lehman Brothers would expire on March 31, 1975 and a new agreement entered into between the Corporation and Lehman Management Co., Inc., a wholly-owned subsidiary of Lehman Brothers Incorporated. The terms of the proposed agreement provide that the management company will furnish the Corporation with investment research and administrative services. The present officers and employees of the Corporation would be offered employment by the management company which would become responsible for their compensation as well as certain other expenses heretofore paid by the Corporation. The proposed agreement further provides that the fee payable to the management company for its services shall be based upon a percentage of the Corporation's net assets.

The proposal will be submitted to stockholders of the Corporation for approval at the Annual Meeting to be held on March 5, 1975 and will be described in detail in the proxy material to be mailed to stockholders on January 31, 1975.

At December 31, 1974 there were 43,177 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.

Alvin W. Pearson

Chairman of the Board

F. W. Hellman

Chairman, Executive Committee

Robert H. Buckles

President

*The
Corporation
and its
Management*

THE LEHMAN CORPORATION'S BOARD OF DIRECTORS, which determines its policies, is composed of nineteen leading industrialists and financiers, with wide experience and an intimate knowledge of business and investment. Seven members are general partners of Lehman Brothers, one is President of the Corporation and eleven are not connected with Lehman Brothers or otherwise connected with the Corporation.

The firm of Lehman Brothers acts as the Corporation's investment adviser under a management agreement. Lehman Brothers has been active in business since 1850 and is today one of the oldest continuing partnerships in the American investment business.

Lehman Brothers manages the affairs of the Corporation, subject to its Board of Directors, advises on the purchase and sale of portfolio securities and places at the disposal of the Corporation its judgment, experience, research and statistical information and economic data. For these services the firm receives compensation at the rate of \$450,000 per annum, payable quarterly. Those partners of the firm who serve as officers and directors of the Corporation do not receive any additional compensation for such services. Copies of the management agreement between The Lehman Corporation and Lehman Brothers are available upon request.

The Corporation maintains its own business and research organization, including a number of experienced security analysts who make continuous studies of investment opportunities and keep in close touch with the industries and securities in which the Corporation has an interest. In the course of their studies, the analysts maintain frequent contact with the executive officers of the companies in which they specialize and obtain information on business and trade conditions from a wide variety of informed sources.

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, or the capital gain distribution only, 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...

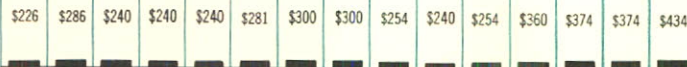
Year	Taken in Cash		Taken in Shares*			
	Income Dividends	Capital Gain Distribution	Net Asset Value Dec. 31st	Value of Capital Gain Distributions**	Total Value of Investment	Income Dividends
1969	(Net Asset Value at Beginning)		\$17.62	—	\$17.62	—
1970	\$.305	\$1.02	15.03	\$1.01	16.04	\$.31
1971	.305	.81	17.87	2.15	20.02	.33
1972	.305	1.27	20.47	4.10	24.57	.34
1973	.295	.84	16.50	4.31	20.81	.35
1974	.305	.42	10.77	3.34	14.11	.38
	<u>\$1.515</u>	<u>\$4.36</u>				<u>\$1.71</u>

*Shares were issued in payment of capital gain distributions for the above years at the following prices: 1970 — \$15.12; 1971 — \$16.44; 1972 — \$17.75. The capital gain distributions for 1973 and 1974 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 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.

**Cumulative

Record of an Investment in The Lehman Corporation

INCOME DIVIDENDS

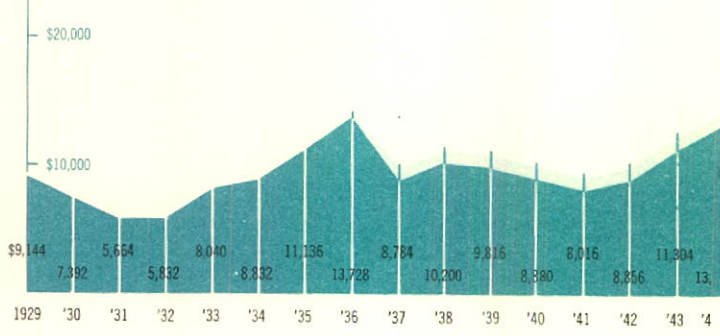


Year Ended Dec. 31	Distributions and Net Asset Values, Per Share	
	Distributions Declared from Income	Net Asset Value End of Year
1929		\$ 3.81
1930	\$.094	3.08
1931	.119	2.36
1932	.10	2.43
1933	.10	3.35
1934	.10	3.68
1935	.117	4.64
1936	.125	5.72
1937	.125	3.66
1938	.106	4.25
1939	.10	4.09
1940	.106	3.70
1941	.15	3.34
1942	.156	3.69
1943	.156	4.71
1944	.181	5.54
1945	.174	7.21
1946	.169	6.55
1947	.192	6.13
1948	.245	5.82
1949	.279	6.60
1950	.335	7.21
1951	.276	8.67
1952	.21	9.15
1953	.245	8.59
1954	.25	11.31
1955	.285	12.56
1956	.31	12.63
1957	.275	10.38
1958	.265	13.84
1959	.27	14.04
1960	.265	13.53
1961	.252	15.80
1962	.255	12.74
1963	.255	14.91
1964	.30	16.01
1965	.312	18.07
1966	.337	16.54
1967	.355	19.97
1968	.365	19.69
1969	.35	17.62
1970	.305	15.03
1971	.305	17.87
1972	.305	20.47
1973	.295	16.50
1974	.305	10.77
Total dividends per share	\$10.176	\$19.165

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 45 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.

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

INITIAL NET ASSET VALUE
\$10,000



Year	CAPITAL GAIN DISTRIBUTIONS	
	ANNUAL	CUMULATIVE
1929	—	—
'30	—	—
'31	—	—
'32	—	—
'33	—	—
'34	—	—
'35	—	—
'36	\$350	950
'37	950	1,300
'38	—	1,300
'39	—	1,300
'40	—	1,300
'41	—	1,300
'42	—	1,300
'43	—	1,300
'44	—	1,300

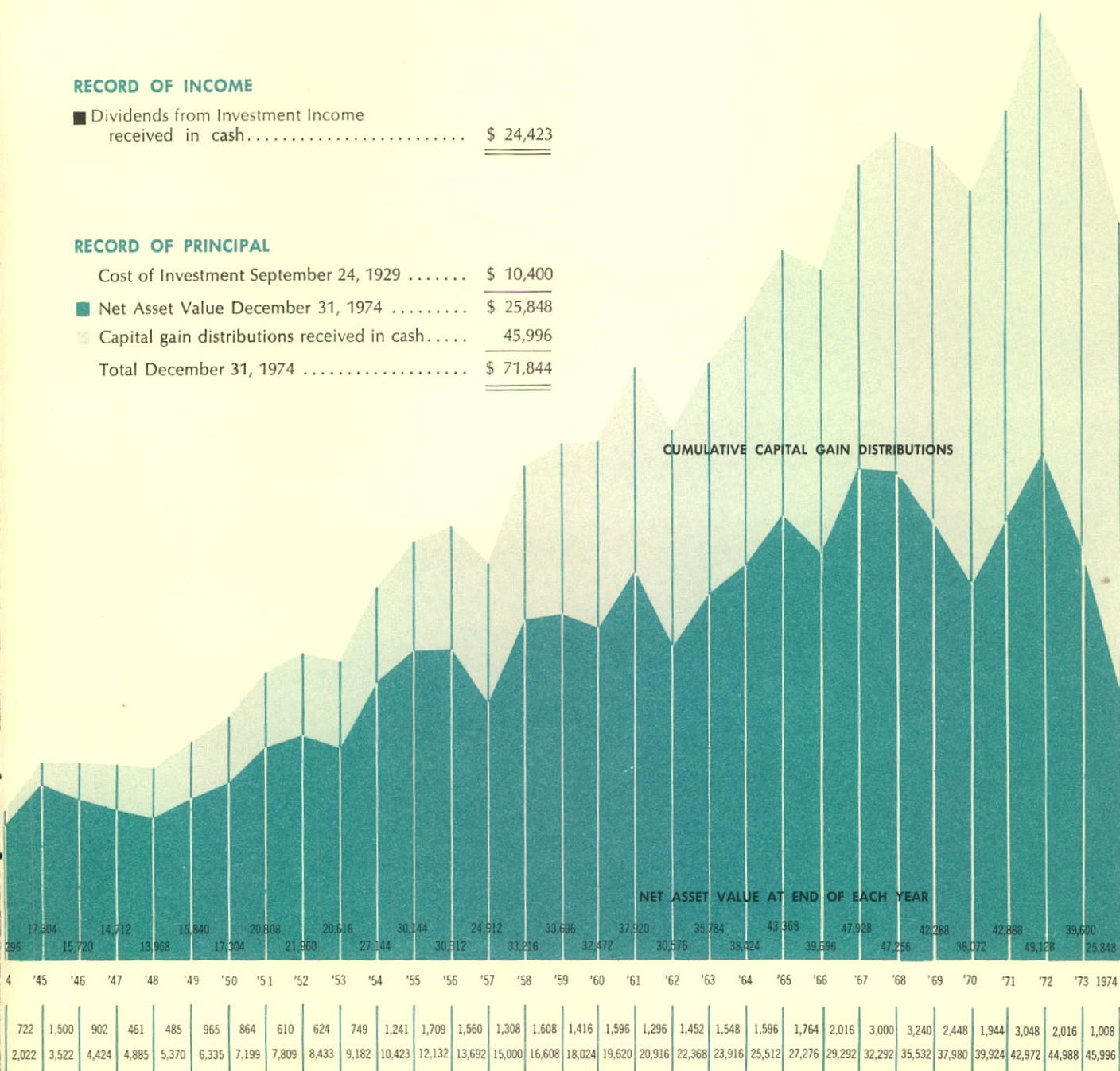


RECORD OF INCOME

■ Dividends from Investment Income received in cash..... \$ 24,423

RECORD OF PRINCIPAL

Cost of Investment September 24, 1929 \$ 10,400
 ■ Net Asset Value December 31, 1974 \$ 25,848
 ■ Capital gain distributions received in cash..... 45,996
 Total December 31, 1974 \$ 71,844



722	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
2,022	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

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 have strong positions within industries that have the potential to grow faster than the economy as a whole. Traditionally, the Corporation has held substantial investments in such areas as office equipment, drugs, electronics and consumer products companies with well established franchises.

From time-to-time our opinion has changed with respect to the areas we believe offer the most favorable investment opportunities. Thus, several years ago we eliminated completely our largest industry position and in recent years we have substantially added to two other industries. Although industry emphasis will undoubtedly continue to change in the future, the common thread of the Corporation's investment philosophy has been to seek out and invest 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 will seek investment opportunities in this unusually depressed market in which we feel the market value of the equity is substantially less than its intrinsic value.

The experience of investors generally shows the great difficulty of consistently predicting turns in the stock market. There is always 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. This natural propensity may be the single 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 going back and forth 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.

*Diversification
of Net Assets*

DECEMBER 31, 1974

THE DIVERSIFICATION of the net assets of the Corporation by industry groups at December 31, 1974 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>	Percentage of Net Assets Dec. 31,		
			1974	1973	1972
Stocks					
Building & Construction	\$ 16,296,139	\$ 5,017,725	1.5%	1.5%	2.6%
Chemical	11,887,841	22,708,988	6.7	4.9	3.9
Consumer Products & Services	39,450,867	21,935,704	6.5	7.6	10.4
Drug & Cosmetic	27,317,022	45,582,812	13.5	12.1	11.3
Electronics & Electrical Equipment.	20,773,632	22,145,625	6.6	8.3	7.8
Energy	36,266,652	63,049,318	18.7	17.4	11.9
Energy Servicing	8,962,662	15,948,125	4.7	3.2	1.4
Financial Services	4,460,314	11,581,250	3.4	3.6	5.3
Food & Beverage	8,484,094	7,073,125	2.1	3.6	3.4
Natural Resources	19,681,513	25,623,750	7.6	7.0	4.5
Office Equipment	20,164,386	43,206,625	12.8	15.3	15.6
Packaging	8,059,058	8,171,250	2.4	1.7	2.1
Retail Trade	14,565,257	9,695,123	2.9	4.0	5.1
Transportation	27,521,855	8,344,625	2.5	3.7	5.1
Miscellaneous	17,997,014	14,486,602	4.3	4.9	5.8
Total Investments in Stocks	<u>\$281,888,306</u>	<u>324,570,647</u>	<u>96.2</u>	<u>98.8</u>	<u>96.2</u>
Cash and Other Assets					
(Net of liabilities)		12,977,007	3.8	1.2	3.8
Total Net Assets		<u>\$337,547,654</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

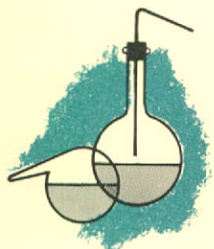
*Largest
Stock
Holdings*

THE TEN LARGEST INVESTMENTS in the Corporation's portfolio at December 31, 1974 are listed below. Included in the list are five investments in the Energy and Energy Servicing industries, two investments in the Drug & Cosmetic industry, two in Office Equipment and one investment in the Financial Service industry. The total cost of these investments amounted to \$31,649,418.

	Shares	Market Value
International Business Machines Corporation...	122,500	\$ 20,580,000
Kerr-McGee Corporation	267,500	19,126,250
Merck & Co., Inc.....	150,000	9,956,250
Standard Oil Company (Ohio)	160,000	9,600,000
General Reinsurance Corporation.....	55,000	9,515,000
Xerox Corporation	174,000	8,961,000
Halliburton Company	65,000	8,913,125
Phillips Petroleum Company	200,000	8,650,000
Atlantic Richfield Company	95,000	8,621,250
Lilly (Eli) and Company	125,000	8,500,000
TOTAL (equal to 33.3% of total net assets) ..		<u>\$112,422,875</u>

Portfolio of Investments

DECEMBER 31, 1974



STOCKS

Number of Shares

Value^(a)

Building & Construction

150,000(c)	Carrier Corporation	\$ 1,031,250
90,000(c)	Fedders Corporation	258,750
59,600(d)	Morrison-Knudsen Company, Inc.	804,600
110,000	Robertshaw Controls Company	976,250
175,000	Ryan Homes, Inc.	1,946,875
		<hr/>
		5,017,725

Chemical

145,656	Air Products and Chemicals, Inc.	6,991,488
45,000(c)	Betz Laboratories, Inc.	1,316,250
120,000(c)(d)	Hercules Incorporated	2,880,000
100,000	Lubrizol Corporation (The)	3,925,000
20,000	Petrolite Corporation	1,210,000
20,000	Raychem Corporation	3,380,000
65,000	Rohm & Haas Company	3,006,250
		<hr/>
		22,708,988

Consumer Products & Services

40,000	ARA Services, Inc.	1,950,000
10,000	Bausch & Lomb Incorporated	213,750
50,000(c)(d)	Black and Decker Manufacturing Company (The) .	1,050,000
25,000(c)	Clorox Company (The)	162,500
73,789(c)	Dart Industries, Inc.	931,586
90,000	Eastman Kodak Company	5,658,750
75,000	Holiday Inns, Inc.	393,750
125,000	Hospital Corporation of America	1,125,000
160,000(c)	Host International, Inc.	900,000
100,000(c)	Howard Johnson Company	450,000
126,075(c)	Marriott Corporation	851,006
150,000(c)	McDonald's Corporation	4,406,250
63,600(c)	Philip Morris Incorporated	3,052,800
22,500	Polaroid Corporation	419,062
135,000	Viacom International Inc.	371,250
		<hr/>
		21,935,704

Drug & Cosmetic

100,000(c)	American Hospital Supply Corporation	2,575,000
50,000	Avon Products, Inc.	1,437,500
100,000	Baxter Laboratories, Inc.	3,425,000
75,000	Bristol-Myers Company	3,750,000
125,000	Chesebrough-Pond's Inc.	4,609,375
125,000	Lilly (Eli) and Company	8,500,000
150,000	Merck & Co., Inc.	9,956,250
105,000(c)	Squibb Corporation	3,018,750
150,000	Syntex Corporation	5,906,250
47,500	Upjohn Company (The)	2,404,687
		<hr/>
		45,582,812

For explanation of notes (a) to (d) inclusive, see page 14.

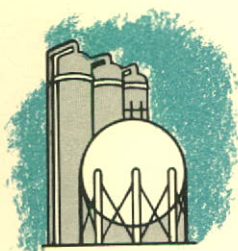


STOCKS

Number of Shares		Value(a)
Electronics & Electrical Equipment		
180,000(c)	AMP Incorporated	\$ 4,297,500
70,000	Beckman Instruments, Inc.	1,233,750
5,000	Foxboro Company (The)	116,250
65,000(c)	Hewlett-Packard Company	3,908,125
115,000(c)	Perkin-Elmer Corporation (The)	1,926,250
85,000(c)(d)	RCA Corporation	913,750
50,000	Spectra-Physics, Inc.	275,000
90,000(c)	Tektronix, Inc.	1,755,000
80,000	Texas Instruments Incorporated	5,420,000
230,000(c)	Westinghouse Electric Corporation	2,300,000
		22,145,625
Energy		
105,000	Aquitaine Company of Canada Ltd.	1,325,625
95,000(c)	Atlantic Richfield Company	8,621,250
80,000	Bow Valley Industries Ltd.	790,000
75,000	Canadian Superior Oil Ltd.	1,546,875
150,000	Dome Petroleum Limited	2,550,000
400(d)	Gas Properties, Inc. (100% owned)	761,000(b)
40,000	Imperial Oil Limited "A"	870,000
267,500(c)(d)	Kerr-McGee Corporation	19,126,250
40,000	Magma Power Company	140,000
200,000	Phillips Petroleum Company	8,650,000
66,950(c)	Pittston Company (The)	2,485,518
125,000	Quaker State Oil Refining Corporation	2,125,000
160,000(c)	Standard Oil Company (Ohio)	9,600,000
24,400	Superior Oil Company (The)	4,196,800
	Oil Royalty Interests	261,000(b)
		63,049,318
Energy Servicing		
80,000(c)	Bucyrus-Erie Company	2,720,000
65,000(c)(d)	Halliburton Company	8,913,125
40,000	Schlumberger Limited	4,315,000
		15,948,125
Financial Services		
85,000	American Re-Insurance Company	1,105,000
70,000	First Charter Financial Corporation	673,750
55,000	General Reinsurance Corporation	9,515,000
25,000	Hall (Frank B.) & Co. Inc.	287,500
		11,581,250

STOCKS

Number of Shares		Value(a)
Food & Beverage		
50,000	Coca-Cola Company (The)	\$ 2,650,000
250,000	Dr Pepper Company	1,906,250
25,000	Gerber Products Company	303,125
110,000(c)	Heublein, Inc.	<u>2,213,750</u>
		7,073,125
Natural Resources		
110,000	Cyprus Mines Corporation	2,502,500
100,000	Kimberly-Clark Corporation	2,462,500
165,000	Reynolds Metals Company	2,371,875
200,000	Texasgulf Inc.	5,175,000
55,000	Union Camp Corporation	2,138,125
160,000(c)	Utah International Inc.	6,320,000
170,000(c)	Weyerhaeuser Company	<u>4,653,750</u>
		25,623,750
Office Equipment		
85,000	Burroughs Corporation	6,417,500
70,000(c)	Digital Equipment Corporation	3,552,500
122,500(d)	International Business Machines Corporation ...	20,580,000
135,000(c)	Sperry Rand Corporation	3,695,625
174,000(c)	Xerox Corporation	<u>8,961,000</u>
		43,206,625
Packaging		
165,000(c)	Continental Can Company, Inc.	4,290,000
80,000(d)	Maryland Cup Corporation	900,000
112,500	Signode Corporation	<u>2,981,250</u>
		8,171,250
Retail Trade		
65,000(d)	Associated Dry Goods Corporation	1,161,875
175,000(c)	Kresge (S. S.) Company	3,871,875
50,000	Lafayette Radio Electronics Corporation	168,750
101,090	Marcor Inc.	1,402,623
60,000(c)	Penney (J. C.) Company, Inc.	2,152,500
100,000(c)	Woolworth (F. W.) Co.	<u>937,500</u>
		9,695,123
Transportation		
125,000	American Airlines, Inc.	640,625
206,000	Braniff International Corporation	1,030,000
60,000(c)	Burlington Northern Inc.	2,400,000
200,000(c)	Continental Air Lines, Inc.	675,000
160,000(c)	Ryder System, Inc.	680,000



**STOCKS**

Number of Shares		Value(a)
	Transportation (continued)	
84,000	Seaboard Coast Line Industries, Inc.	\$ 2,394,000
100,000	Trans World Airlines, Inc.	525,000
		<u>8,344,625</u>
	Miscellaneous	
65,000(c)	Avery Products Corporation	1,462,500
200,000	FMC Corporation	2,125,000
142,800	International Flavors & Fragrances Inc.	3,534,300
35,589(d)	Litton Industries, Inc.	111,215
41,300(d)	Litton Industries, Inc. Conv. Pref. Partic. Ser.	175,525
75,000	Midland-Ross Corporation	796,875
75,000(c)(d)	Minnesota Mining and Manufacturing Company	3,459,375
55,000(c)	Singer Company (The)	632,500
84,700(c)	White Motor Corporation	635,250
	Other Stocks	1,554,062
		<u>14,486,602</u>
	Total Investments in Stocks	<u>\$324,570,647</u>

CORPORATE SHORT-TERM NOTES

Face Amount (in thousands)		Cost plus discount earned
\$12,200(c)	Ford Motor Credit Company	\$ 12,158,846
7,500(c)	General Electric Credit Corporation	7,474,653
4,700(c)	J. C. Penney Financial Corporation	4,679,010
5,800	Sears Roebuck Acceptance Corporation	5,776,442
	Total Corporate Short-Term Notes	<u>\$ 30,088,951</u>

Notes:

(a) Market values are based on the last reported sale on December 31, 1974, 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. Securities which are not currently quoted are taken at fair value in the opinion of the directors. Unless otherwise indicated, securities are traded on national securities exchanges or in over-the-counter markets.

(b) Taken at fair value in the opinion of the directors — not currently quoted.

(c) Lehman Brothers Incorporated participated as an underwriter in the public issues of securities of this company or of its subsidiaries during the three years ended December 31, 1974.

(d) A member of the firm of Lehman Brothers is a member of the Board of Directors of this company.

Portfolio Changes

Listed below are the Corporation's portfolio changes during the three months ended December 31, 1974. 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.

	Shares Increased	Shares Held Dec. 31, 1974
ADDITIONS		
American Hospital Supply Corporation	10,000	100,000
Bausch & Lomb Incorporated	10,000	10,000
Betz Laboratories, Inc.	5,000	45,000
Bucyrus-Erie Company	15,000	80,000
First Charter Financial Corporation	70,000	70,000
Gerber Products Company	25,000	25,000
Hall (Frank B.) & Co. Inc.	10,000	25,000
Magma Power Company	40,000	40,000
Perkin-Elmer Corporation (The)	2,500	115,000
Petrolite Corporation	20,000	20,000
Upjohn Company (The)	7,500	47,500
	Shares Decreased	Shares Held Dec. 31, 1974
REDUCTIONS		
AMP Incorporated	2,000	180,000
Burroughs Corporation	15,000	85,000
Continental Can Company, Inc.	5,000	165,000
Eastman Kodak Company	6,500	90,000
Hewlett-Packard Company	20,000	65,000
Kerr-McGee Corporation	7,500	267,500
Merck & Co., Inc.	15,000	150,000
Minnesota Mining and Manufacturing Company	15,000	75,000
Rohm & Haas Company	3,300	65,000
Thermal Power Company	50,000	—

*Statements of
Operations*

	Year Ended	
	December 31, 1974	December 31, 1973
INVESTMENT INCOME		
Income:		
Dividends	\$ 8,538,847	\$ 8,163,215
Interest	2,903,529	2,976,815
Oil Royalties and Other Income	149,730	161,022
	<u>11,592,106</u>	<u>11,301,052</u>
Expenses:		
Salaries	657,655	607,077
Employees' Thrift and Retirement Plans.....	105,375	123,679
Directors' Fees	87,000	70,000
Management Compensation	450,000	393,750
Transfer, Dividend Disbursing, Annual Meeting, Custody, Legal, Auditing, Reports, etc.....	474,044	422,575
Electronic Data Processing and Other Research.....	75,177	92,717
Rent and Related Services.....	82,792	78,298
Franchise and Other Taxes.....	115,834	121,371
Miscellaneous	93,848	103,088
	<u>2,141,725</u>	<u>2,012,555</u>
Net Investment Income (Notes 4 & 5).....	<u>\$ 9,450,381</u>	<u>\$ 9,288,497</u>
REALIZED GAIN AND CHANGE IN NET UNREALIZED APPRECIATION		
Realized Gain from Security Transactions:		
Proceeds from Securities Sold	\$ 32,566,011	\$ 45,097,190
Less Cost of Securities Sold	18,713,945	18,381,145
Realized Gain	13,852,066	26,716,045
Less Provision for State and City Taxes	80,000	214,000
Net Realized Gain from Security Transactions	<u>13,772,066</u>	<u>26,502,045</u>
Net Unrealized Appreciation of Investments:		
Beginning of Period	222,533,577	347,358,407
End of Period	42,364,341	222,533,577
Change in Net Unrealized Appreciation of Investments...	[180,169,236]	[124,824,830]
Net Realized Gain and Change in Net Unrealized Appreciation (Notes 3, 4 & 5)	<u>[\$166,397,170]</u>	<u>[\$ 98,322,785]</u>

See Notes to Financial Statements

*Statement of
Assets and
Liabilities*

	December 31, 1974	December 31, 1973
ASSETS		
Investments in Stocks at Market or Fair Value (average cost 1974—\$281,888,306; 1973—\$286,448,444)	\$324,570,647	\$510,852,021
Corporate Short-Term Notes at cost plus discount earned	30,088,951	36,389,266
Certificates of Deposit at cost	16,161,400	14,300,000
Cash	933,729	578,956
Dividends and Interest Receivable	958,470	885,599
Total Assets	372,713,197	563,005,842
LIABILITIES		
Final Dividend from Investment Income and Capital Gain Dividend for the Year 1974 Payable in Cash	15,676,638	28,531,480
Payable for Securities Purchased	101,341	138,848
Deposits on Securities Loaned	18,817,000	15,055,300
Accrued Expenses and Taxes	252,564	184,646
Provision for State and City Taxes on Unrealized Appreciation	318,000	1,870,000
Total Liabilities	35,165,543	45,780,274
NET ASSETS	\$337,547,654	\$517,225,568
Shares of Capital Stock Outstanding (Note 6)	31,353,275	31,353,275
Net Asset Value Per Share	\$10.77	\$16.50

*Statement of
Changes in
Net Assets*

	Year Ended	
	December 31, 1974	December 31, 1973
From Investment Activities:		
Net Investment Income	\$ 9,450,381	\$ 9,288,497
Dividends from Investment Income	[9,562,750]	[9,249,216]
Net Realized Gain	13,772,066	26,502,045
Distribution from Realized Gain	[13,168,375]	[26,336,751]
Change in Net Unrealized Appreciation	[180,169,236]	[124,824,830]
Change in Net Assets	[179,677,914]	[124,620,255]
Net Assets at Beginning of Period	517,225,568	641,845,823
Net Assets at End of Period	\$337,547,654	\$517,225,568

See Notes to Financial Statements

*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, 1974, 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, 1974 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 22, 1975

*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 basis the net realized gain for the year ended December 31, 1974 amounted to \$13,154,064 and the net unrealized appreciation at that date (after provision for State and City taxes) amounted to \$51,520,449.

(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 \$318,000 at December 31, 1974 and \$1,870,000 at December 31, 1973.

(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) The authorized capital stock of the Corporation consisted of 40,000,000 shares, \$1.00 par value.

(7) Directors, other than those who were partners of Lehman Brothers or employees of the Corporation, were paid fees of \$87,000, during the year 1974, for attendance at

Directors', Executive, Audit and Special Committee meetings. Officers were paid salaries of \$289,281 and Lehman Brothers was paid \$450,000 as compensation for management services.

(8) The total amount of brokerage commissions paid for 1974 was \$300,838 of which \$157,482 was paid to Lehman Brothers Incorporated, a wholly-owned subsidiary of a corporation all the stock of which is owned by partners of Lehman Brothers.

(9) The cost of investment securities purchased and proceeds from securities sold during the year 1974, other than corporate short-term notes, aggregated \$14,159,080 and \$32,566,011, respectively.

(10) There are set forth below income and capital changes per share of capital stock of the Corporation for each of the years 1970 to 1974.

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Investment Income	\$.37	\$.36	\$.35	\$.35	\$.37
Less Expenses	<u>.07</u>	<u>.06</u>	<u>.06</u>	<u>.05</u>	<u>.06</u>
Net Investment Income30	.30	.29	.30	.31
Dividends from Investment Income	(.305)	(.295)	(.305*)	(.305)	(.305)
Net Realized Gain and Change in Net Unrealized Appreciation	(5.305)	(3.135)	3.885	3.655	(1.575)
Distributions from Realized Gains	(.42)	(.84)	(1.27)	(.81)	(1.02)
Net Asset Value Beginning of Period	<u>16.50</u>	<u>20.47</u>	<u>17.87</u>	<u>15.03</u>	<u>17.62</u>
Net Asset Value End of Period	<u>\$10.77</u>	<u>\$16.50</u>	<u>\$20.47</u>	<u>\$17.87</u>	<u>\$15.03</u>
Number of Shares Outstanding End of Period (000's omitted)	<u>31,353</u>	<u>31,353</u>	<u>31,353</u>	<u>30,134</u>	<u>29,316</u>
Ratio of Expenses to Average Net Assets50%	.34%	.28%	.31%	.38%
Portfolio Turnover Rate	3%	7%	12%	14%	16%

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

(11) Under the terms of a management agreement between the Corporation and Lehman Brothers, the firm manages the affairs of the Corporation, subject to its Board of Directors, superintends its financial transactions, advises on the purchase and sale of securities, directs the statistical and research organization of the Corporation and places at the disposal of the Corporation its judgment, experience, statistical information and data. For these services the firm receives compensation of \$450,000 per annum. Copies of the management agreement are available upon request. On January 21, 1975 the Board of Directors approved a proposal which will be presented for the approval or rejection of stockholders at the Annual Meeting on March 5, 1975. The proposal contemplates that on April 1, 1975 a new agreement will be entered into between the Corporation and Lehman Management Co., Inc., a wholly-owned subsidiary of Lehman Brothers Incorporated. The terms of the proposed agreement provide that the management company will furnish the Corporation with investment research and administrative services. The present officers and employees of the Corporation would become employees of the management company which would become responsible for their compensation as well as certain other expenses heretofore paid by the Corporation. The management fee payable for these services under the proposed agreement will be based upon a percentage of the Corporation's net assets.

Purchases of Capital Stock

The Corporation may purchase, in the future, shares of its own capital stock for retirement at such times, at such prices, and in such amounts as the Board of Directors may deem advisable. All purchases will be reported to stockholders in the quarterly reports of the Corporation. No shares have been purchased by the Corporation since 1944.

Underwritings

Public issues of securities in which Lehman Brothers Incorporated participated as an underwriter from October 1, 1974 to December 31, 1974 of companies, any of whose securities, or securities of whose parent, were owned by The Lehman Corporation within six months prior to the public issue, were as follows:

American Hospital Supply Corporation
5 ³ / ₄ % Conv. Sub. Debs. due 1999
ARCO Pipe Line Company
8.70% Guaranteed Notes due 1981
Avery Products Corporation
9 ¹ / ₈ % Notes due 1981
Ford Motor Credit Company
9 ³ / ₄ % Notes due 1981
10 ¹ / ₂ % Debentures due 1994
General Electric Credit Corporation
8.60% Notes due 1985
Halliburton Company
8 ¹ / ₄ % Notes due 1981
McDonald's Corporation
9 ⁵ / ₈ % Notes due 1982
J.C. Penney Financial Corporation
9.45% Debentures due 1981
10.20% S.F. Debs. due 1994
Sohio/BP Trans Alaska Pipeline Finance Inc.
9 ³ / ₄ % Debentures due 1999
Weyerhaeuser Company
8.90% S.F. Debs. due 2004
Xerox Corporation
8.20% Notes due 1982
8 ⁵ / ₈ % S.F. Debs due 1999

Net Asset Value Available to Stockholders

A calculation of the approximate net asset value of the capital stock of the Corporation is made daily for the information of officers and directors. This figure is available at any time upon request.

Officers

Alvin W. Pearson *Chairman of the Board*

F. Warren Hellman *Chairman, Executive Committee*

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*

Anthony Forlano *Secretary & Assistant Treasurer*

Boniface A. Zaino *Investment Vice President*

Richard Ensling *Assistant Treasurer*

Lehman Brothers *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 1876
Grand Central Station
New York, N.Y. 10017

*The
Lehman
Corporation*

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