

SECURITIES AND EXCHANGE COMMISSION

FORM 485APOS

Post-effective amendments [Rule 485(a)]

Filing Date: **1995-02-22**
SEC Accession No. **0000927405-95-000005**

([HTML Version](#) on secdatabase.com)

FILER

LEHMAN BROTHERS FUNDS INC

CIK: **904411** | State of Incorporation: **MD** | Fiscal Year End: **0731**
Type: **485APOS** | Act: **33** | File No.: **033-62312** | Film No.: **95514285**

Business Address
*200 VASEY STREET
NEW YORK NY 10285
2126400600*

As filed with the Securities and Exchange Commission on February 22, 1995

Securities Act File No. 33-62312
Investment Company Act File No. 811-7706

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

/X/

Pre-Effective Amendment No. _____
Post-Effective Amendment No. 6

/X/

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

/X/

Amendment No. 8

/X/

Lehman Brothers Funds, Inc.
(Exact Name of Registrant as Specified in Charter)

3 World Financial Center
New York, N.Y. 10285
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 526-7000

Andrew D. Gordon
Lehman Brothers Funds, Inc.
3 World Financial Center, New York, New York 10285
(Name and Address of Agent for Service)

Copies to:

Patricia L. Bickimer, Esq. Gary S. Schpero, Esq.
The Shareholder Services Group, Inc. Simpson Thacher & Bartlett
Exchange Place 425 Lexington Avenue
Boston, Massachusetts 02109 New York, New York 10017
(Name and Address of Agent for Service)

*Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of the Registration Statement.

It is proposed that this filing will become effective
(check appropriate box):

___ immediately upon filing pursuant to paragraph (b), or
on ___ pursuant to paragraph (b)
60 days after filing pursuant to paragraph (a) (i), or
___ on pursuant to paragraph (a) (i)
X 75 days after filing pursuant to paragraph (a) (ii)
___ on ___ pursuant to paragraph (a) (ii) of Rule 485

Pursuant to Rule 24f-2 under the Investment Company Act of 1940, the Registrant has registered an indefinite number of shares of Common Stock, \$0.001 par value per share, of all series and classes of the Registrant, then existing or thereafter created, and has filed a Rule 24f-2 Notice, for the fiscal year ended July 31, 1994, on September 22, 1994.

LEHMAN BROTHERS FUNDS, INC.
Registration Statement on Form N-1A
CROSS REFERENCE SHEET
PURSUANT TO RULE 495(a)
under the Securities Act of 1933

<TABLE> <CAPTION> Form N-1A Item No. <S> Item 1. Cover Page	Location in Prospectus <C> Cover Page
Item 2. Synopsis	Background and Expense Information
Item 3. Condensed Financial Information	Not Applicable
Item 4. General Description of Registrant	Investment Objective and Policies; Additional Information
Item 5. Management of the Fund	Management of the Fund; Additional Information
Item 5A. Management's Discussion of Fund Performance	Not Applicable
Item 6. Capital Stock and Other Securities	Dividends; Taxes; Additional Information
Item 7. Purchase of Securities Being Offered	Valuation of Shares; Purchase of Shares; Exchange Privilege
Item 8. Redemption or Repurchase	Redemption of Shares
Item 9. Legal Proceedings </TABLE>	Not Applicable

<TABLE> <CAPTION> N-1A Item No. <S> Item 10. Cover Page	Location in Statement of Additional Information <C> Cover Page
Item 11. Table of Contents	Table of Contents
Item 12. General Information and History	Not Applicable
Item 13. Investment Objectives and Policies	Investment Objective and Policies
Item 14. Management of the Fund	Management of the Fund

Item 15. Control Persons and Principal Holders of Securities	Management of the Fund
Item 16. Investment Advisory and Other Services	Management of the Fund; Auditors
Item 17. Brokerage Allocation and Other Practices	Investment Objective and Policies; Additional Purchase and Redemption Information
Item 18. Capital Stock and Other Securities	Investment Objective and Policies
Item 19. Purchase, Redemption and Pricing of Securities	Additional Purchase and Redemption Information
Item 20. Tax Status	Additional Information Concerning Taxes
Item 21. Underwriters	Additional Purchase and Redemption Information
Item 22. Calculation of Performance Data	Performance Data
Item 23. Financial Statements	Not Applicable

</TABLE>
Part C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C of this Registration Statement.

PART A

Lehman Brothers Funds, Inc.

Lehman Brothers New York Municipal Money Market Fund

Select Shares

Prospectus begins on page one.

Dated May ___, 1995

Information contained herein is subject to completion or amendment.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion, Dated February 22, 1995
Lehman Brothers New York Municipal Money Market Fund

Prospectus

May ___, 1995

This Prospectus describes Lehman Brothers New York Municipal Money Market Fund (the "Fund"), a separate, non-diversified money market portfolio of Lehman Brothers Funds, Inc. (the "Company"), an open-end management investment company. This Prospectus relates to Select Shares, a class of shares offered by the Fund.

[Continued on next page.]

Shares of the Fund are not deposits or obligations of, or guaranteed or endorsed by, any bank, and such shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Shares of the Fund involve certain investment risks, including the possible loss of principal. There can be no assurance that the Fund will be able to maintain a net asset value of \$1.00 per share.

Lehman Brothers Inc. sponsors the Fund and acts as Distributor of the Fund's shares. Lehman Brothers Global Asset Management Inc. serves as the Fund's Investment Adviser.

The address of the Fund is 3 World Financial Center, New York, New York 10285. Yield and other information regarding the Fund may be obtained through a Lehman Brothers Investment Representative or by calling 800-861-4171.

This Prospectus briefly sets forth certain information about the Fund that investors should know before investing. Investors are advised to read this Prospectus and retain it for future reference. Additional information about the Fund, contained in a Statement of Additional Information dated May ___, 1995, and as may be amended or supplemented from time to time, has been filed with the Securities and Exchange Commission and is available to investors without charge by calling 800-861-4171. The Statement of Additional Information is incorporated in its entirety by reference into this Prospectus.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

LEHMAN BROTHERS

[Continued from previous page.]

The Fund's investment objective is to provide investors with as high a level of current income exempt from federal income tax and from New York State and New York City personal income taxes as is consistent with stability of principal. The Fund will seek to invest substantially all of its total assets in New York Municipal Obligations (as defined herein). All or a portion of the Fund's dividends may be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

TABLE OF CONTENTS

<TABLE>

<CAPTION>

<S> <C>

Page

Benefits to Investors
3

Background and Expense Information
3

Investment Objective and Policies
4

Purchase of Shares
11

Redemption of Shares
12

Exchange Privilege
13

Valuation of Shares
13

Management of the Fund
14

Dividends
16

Taxes
16

Yields
18

Additional Information
19

</TABLE>

No person has been authorized to give any information or to make any representations not contained in this Prospectus, or in the Fund's Statement

of Additional Information incorporated herein by reference, in connection with the offering made by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund or its Distributor. This Prospectus does not constitute an offering by the Fund or by the Distributor in any jurisdiction in which such offering may not lawfully be made.

Benefits to Investors

The Fund offers investors several important benefits:

- o A professionally managed portfolio of high quality money market instruments exempt from federal income taxes and both New York State and New York City personal income taxes.
- o Investment liquidity through convenient purchase and redemption procedures.
- o Stability of principal through maintenance of a constant net asset value of \$1.00 per share (although there is no assurance that it can do so on a continuing basis).
- o A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities.

Background and Expense Information

The Fund is authorized to offer multiple classes of shares. One class of shares, Select Shares, is offered by this Prospectus. The Fund also offers an additional class of shares, Global Clearing Shares, by a separate Prospectus and contemplates that it may offer additional classes of shares in the future. Each share of the Fund accrues income in the same manner, but certain expenses differ based upon the class. See "Additional Information." The following Expense Summary lists the costs and expenses that a shareholder can expect to incur as an investor in Select Shares of the Fund based upon estimated operating expenses for the current fiscal year.

<TABLE>

Expense Summary

<CAPTION>

<S>

<C>

SHAREHOLDER TRANSACTION EXPENSES

SELECT

SHARES

ANNUAL FUND OPERATING EXPENSES

(as a percentage of average net assets)

Advisory Fees (after waivers)*

____%

Rule 12b-1 Fees (after waivers)**

____%

Other Expenses - including Administration

Fees

(after waivers)

___%

Total Fund Operating Expenses
(after waivers)

___%

</TABLE>

* Reflects voluntary waivers of advisory fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of advisory fees to average net assets would be ___%.

** Reflects voluntary waivers of Rule 12b-1 fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of Rule 12b-1 fees to average net assets would be ___%.

Reflects voluntary waivers of administration fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of other expenses to average net assets would be ___%.

Absent the voluntary waivers referred to above, the ratio of total fund operating expenses to average net assets would be ___%.

Example

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return and complete redemption at the end of each time period:

<TABLE>

<CAPTION>

<S> <C> <C>

1
YEAR
3
YEAR

Select Shares:

\$ ___
\$ ___

</TABLE>

The foregoing should not be considered a representation of actual expenses and rates of return, which may be greater or less than those shown. The foregoing table has not been audited by the Fund's independent auditors.

Investment Objective and Policies

In General

The Fund's investment objective is to provide investors with as high a level of current income exempt from federal income tax and New York State and New York City personal income taxes as is consistent with stability of principal. All or a portion of the Fund's dividends may be a specific tax preference item for purposes of the federal individual and corporate alternative minimum taxes. There can be no assurance that the Fund will achieve its investment objective.

The Fund invests only in securities which are purchased with and payable in U.S. dollars and which have (or, pursuant to regulations adopted by the

Securities and Exchange Commission (the "SEC"), will be deemed to have) remaining maturities of thirteen months or less at the date of purchase by the Fund. The Fund maintains a dollar-weighted average portfolio maturity of 90 days or less. The Fund follows these policies to maintain a constant net asset value of \$1.00 per share, although there is no assurance that it can do so on a continuing basis.

The Fund will limit its portfolio investments to securities that are determined by its Investment Adviser to present minimal credit risks pursuant to guidelines established by the Company's Board of Directors and which are "Eligible Securities" at the time of acquisition by the Fund. The term "Eligible Securities" includes securities rated by the "Requisite NRSROs" in one of the two highest short-term rating categories, securities of issuers that have received such ratings with respect to other short-term debt securities and comparable unrated securities. "Requisite NRSROs" means (a) any two nationally recognized statistical rating organizations ("NRSROs") that have issued a rating with respect to a security or class of debt obligations of an issuer, or (b) one NRSRO, if only one NRSRO has issued such a rating at the time that the Fund acquires the security. A discussion of the ratings categories of the NRSROs is contained in the Appendix to the Statement of Additional Information.

In pursuing its investment objective, the Fund, which operates as a non-diversified investment company, will seek to invest substantially all (i.e. at least 80%) of its total assets in New York Municipal Obligations (as defined below). To the extent that the unavailability of suitable New York Municipal Obligations prevents the Fund from investing substantially all of its assets in such obligations, the Fund may purchase Other Municipal Obligations (as defined below). Under normal market conditions, however, the Fund will invest at least 65% of its total assets in New York Municipal Obligations, and at least 80% of its total assets in Municipal Obligations (as defined below). Except as described below, the Fund will not knowingly purchase securities the interest on which is subject to federal income tax. (See, however, "Taxes" below concerning the treatment of exempt-interest dividends paid by the Fund for purposes of the federal alternative minimum tax applicable to particular classes of investors.)

As used herein, "Municipal Obligations" are obligations exempt from federal income tax that are issued by or on behalf of states, territories and possessions of the United States, the District of Columbia, and their respective authorities, agencies, instrumentalities and political subdivisions, and derivative securities exempt from federal income tax such as tender option bonds, participations, beneficial interests in trusts and partnership interests, "New York Municipal Obligations" are Municipal Obligations the interest on which is exempt from regular federal income tax and from the personal income taxes of New York State and New York City, and "Other Municipal Obligations" are Municipal Obligations other than New York Municipal Obligations. New York Municipal Obligations include municipal securities issued by the State of New York and its political sub-divisions, as well as certain other governmental issuers such as the Commonwealth of Puerto Rico. Dividends derived from interest on Other Municipal Obligations will be exempt from federal income tax but may be subject to New York State and New York City personal income taxes. Opinions relating to the validity of Municipal Obligations and to the exemption of interest thereon from federal income tax (and, with respect to New York Municipal Obligations, to the exemption of interest thereon from New York State and New York City personal income taxes as well) are rendered by bond counsel to the respective issuers at the time of issuance, and opinions relating to the validity of and the tax-exempt status of payments received by the Fund from tax-exempt derivatives are rendered by counsel to the respective sponsors of such derivatives. The Fund and its Investment Adviser will rely on such opinions and will not review independently the underlying proceedings relating to the issuance of Municipal Obligations and New York Municipal Obligations, the creation of any tax-exempt derivatives or the bases for such opinions.

The Fund may hold uninvested cash reserves pending investment and during temporary defensive periods including when suitable New York or Other

Municipal Obligations are unavailable. There is no percentage limitation on the amount of assets which may be held uninvested. Uninvested cash reserves will not earn income. In addition to or in lieu of holding uninvested cash reserves under the aforementioned circumstances, the Fund may elect to invest without limitation in high quality, short-term instruments, including U.S. government and U.S. and non-U.S. bank and commercial obligations, and repurchase agreements with respect to such instruments, the income from which is subject to federal income tax and New York State and New York City personal income tax. If at some future date, in the opinion of the Fund's Investment Adviser, adverse conditions prevail in the market for New York Municipal Obligations (including conditions under which such obligations are unavailable for investment), the Fund may, for temporary defensive purposes, invest more than 35% of its assets in Other Municipal Obligations.

Types of Municipal Obligations

The two principal classifications of Municipal Obligations that may be held by the Fund are "general obligation" securities and "revenue" securities. General obligation securities are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue securities are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as the user of the facility being financed. Revenue securities may include private activity bonds. Such bonds may be issued by or on behalf of public authorities to finance various privately operated facilities and are not payable from the unrestricted revenues of the issuer. As a result, the credit quality of private activity bonds is frequently related directly to the credit standing of private corporations or other entities.

The Fund's portfolio may also include "moral obligation" securities, which are normally issued by special purpose public authorities. If the issuer of moral obligation securities is unable to meet its debt service obligations from current revenues, it may draw on a reserve fund, the restoration of which is a moral commitment but not a legal obligation of the state or municipality that created the issuer.

Although the Fund may invest more than 25% of its net assets in New York Municipal Obligations the interest on which is paid solely from revenues of similar projects, it does not presently intend to do so on a regular basis. To the extent the Fund's assets are concentrated in New York Municipal Obligations that are payable from the revenues of similar projects or are private activity bonds, the Fund will be subject to the peculiar risks presented by the laws and economic conditions relating to such projects and bonds to a greater extent than it would be if its assets were not so concentrated.

INVESTMENT LIMITATIONS

The investment limitations enumerated below, as well as the Fund's policy with respect to investing at least 80% of its total assets in Municipal Obligations, are fundamental and may not be changed by the Company's Board of Directors without the affirmative vote of the holders of a majority of the Fund's outstanding shares. The Fund's investment objective and the other investment policies described herein may be changed by the Board of Directors at any time. If there is a change in the investment objective of the Fund, shareholders of the Fund should consider whether the Fund remains an appropriate investment in light of their then current financial position and needs. (A complete list of the Fund's investment limitations that cannot be changed without a vote of shareholders is contained in the Statement of Additional Information under "Investment Objective and Policies.") The percentage limitations set forth below, as well as those contained elsewhere in this Prospectus and the Statement of Additional Information, apply at the time a transaction is effected, and a subsequent change in a percentage resulting from market fluctuations or any other cause other than an action by the Fund will not require the Fund to dispose of portfolio securities or to take other action to satisfy the percentage limitation.

* The Fund may not borrow money, except that the Fund may borrow money from banks or from other funds advised by Lehman Brothers Inc. ("Lehman Brothers") or its affiliates, and enter into reverse repurchase agreements, in each case for temporary or emergency purposes only (not for leveraging or investing) in aggregate amounts not exceeding 33 1/3% of the value of its total assets at the time of such borrowing. For purposes of the foregoing investment limitation, the term "total assets" shall be calculated after giving effect to the net proceeds of any borrowings and reduced by any liabilities and indebtedness other than such borrowings. Additional investments will not be made by the Fund when borrowings exceed 5% of its total assets; provided, however, that the Fund may increase its interest in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund while such borrowings are outstanding.

* The Fund may not purchase any securities which would cause 25% of more of the value of its total assets at the time of such purchase to be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments in U.S. Government Securities or New York Municipal Obligations (other than those backed only by the assets and revenues of non-governmental users), and provided further, that the Fund may invest all or substantially all of its assets in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund.

The Fund may, in the future, seek to achieve its investment objective by investing all of its assets in a no-load, open-end management investment company having the same investment objective and policies and substantially the same investment restrictions as those applicable to the Fund. In such event, the Fund's investment advisory agreement would be terminated. Such investment would be only if the Company's Board of Directors believes that the aggregate per share expenses of each class of the Fund and such other investment company will be less than or approximately equal to the expenses which each class of the Fund would incur if the Fund were to continue to retain the services of an investment adviser for the Fund and the assets of the Fund were to continue to be invested directly in portfolio securities.

OTHER INVESTMENT PRACTICES

Floating and Variable Rate Notes. The Fund may purchase variable or floating rate notes, which are instruments that provide for adjustments in the interest rate on certain reset dates or whenever a specified interest rate index changes, respectively. Such notes might not be actively traded in a secondary market but, in some cases, the Fund may be able to resell such notes in the dealer market. Variable and floating rate notes typically are rated by credit rating agencies, and their issuers must satisfy the same quality criteria as set forth above. The Fund invests in variable or floating rate notes only when the Investment Adviser deems the investment to involve minimal credit risk.

Certain of the floating or variable rate notes that may be purchased by the Fund may carry a demand feature that would permit the holder to tender them back to the issuer of the underlying instrument, or to a third party, at par value prior to maturity. Where necessary to ensure that such a note is an Eligible Security, the Fund will require that the issuer's obligation to pay the principal of the note be backed by an unconditional third-party letter or line of credit, guarantee or commitment to lend. If a floating or variable rate demand note is not actively traded in a secondary market, it may be difficult for the Fund to dispose of the note if the issuer were to default on its payment obligation or during periods that the Fund is not entitled to exercise its demand rights, and the Fund could, for this or other reasons, suffer a loss to the extent of the default. While, in general, the Fund will invest only in securities that mature within thirteen months of purchase, the Fund may invest in floating or variable rate demand notes which have nominal maturities in excess of thirteen months, if such instruments carry demand features that comply with conditions established by the SEC.

When-Issued and Delayed Delivery Securities. The Fund may purchase securities on a "when-issued" or delayed delivery basis. When-issued and delayed delivery securities are securities purchased for delivery beyond the normal settlement date at a stated price and yield. The Fund generally will not pay for such securities or start earning interest on them until they are received. Securities purchased on a when-issued or delayed delivery basis are recorded as an asset and are subject to changes in value based upon changes in the general level of interest rates. The Fund expects that commitments to purchase when-issued and delayed delivery securities will not exceed 25% of the value of its total assets absent unusual market conditions. The Fund does not intend to purchase when-issued or delayed delivery securities for speculative purposes but only in furtherance of its investment objective. When the Fund purchases securities on a when-issued or delayed delivery basis, it will set aside securities or cash with its custodian equal to the payment that will be due.

Tender Option Bonds. The Fund may purchase tender option bonds. A tender option bond is a municipal obligation (generally held pursuant to a custodial arrangement) having a maturity longer than 13 months and bearing interest at a fixed rate substantially higher than prevailing short-term tax-exempt rates, that has been coupled with the agreement of a third party, such as a bank, broker-dealer or other financial institution, pursuant to which such institution grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the municipal obligation's fixed coupon rate and the rate, as determined by remarketing or similar agent at or near the commencement of such period, that would cause the securities coupled with the tender option, to trade at or near par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-end tax exempt rate. LBGAM will consider on an ongoing basis the creditworthiness of the issuer of the underlying municipal obligation, of any custodian and of the third party provider of the tender option. In certain instances and for certain tender option bonds, the option may be terminable in the event of a default in payment of principal or interest on the underlying municipal obligation and for other reasons.

Municipal Lease Obligations. The Fund may invest in municipal obligations that constitute participations in a lease obligation or installment purchase contract obligation (hereafter collectively called "municipal lease obligations") of a municipal authority or entity. Although municipal lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a municipal lease obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain municipal lease obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although non-appropriation municipal lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. The Fund will seek to minimize the special risks associated with such securities by not investing more than 10% of its assets in municipal lease obligations that contain non-appropriation clauses, and by only investing in those non-appropriation leases where (a) the nature of the leased equipment or property is such that its ownership or use is essential to a governmental function of the municipality, (b) appropriate covenants will be obtained from the municipal obligor prohibiting the substitution or purchase of similar equipment if lease payments are not appropriated, (c) the lease obligor has maintained good market acceptability in the past, (d) the investment is of a size that will be attractive to institutional investors, and (e) the underlying leased equipment has elements of portability and/or use that enhance its marketability in the event foreclosure on the underlying equipment were ever required. Municipal lease obligations provide a premium interest rate which along with regular amortization of the principal may make them attractive for a portion of the

assets of the Fund.

Custodial Receipts and Certificates. The Fund may acquire custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both, on certain municipal obligations. The underwriter of these certificates or receipts typically purchases municipal obligations and deposits the obligations in an irrevocable trust or custodial account with a custodian bank, which then issues receipts or certificates that evidence ownership of the periodic unmatured coupon payments and the final principal payment on the obligations. Although under the terms of a custodial receipt, the Fund typically would be authorized to assert its rights directly against the issuer of the underlying obligation, the Fund could be required to assert through the custodian bank those rights as may exist against the underlying issuer. Thus, in the event the underlying issuer fails to pay principal and/or interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation of the issuer. In addition, in the event that the trust or custodial account in which the underlying security has been deposited is determined to be an association taxable as a corporation instead of a non-taxable entity, the yield on the underlying security would be reduced in recognition of any taxes paid.

Participation Interests. The Fund may purchase participation certificates issued by a bank, insurance company or other financial institution in obligations owned by such institutions or affiliated organizations that may otherwise be purchased by the Fund, and loan participation certificates. A participation certificate gives the Fund an undivided interest in the underlying obligations in the proportion that the Fund's interest bears to the total principal amount of such obligations. Certain of such participation certificates may carry a demand feature that would permit the holder to tender them back to the issuer or to a third party prior to maturity. See "Floating and Variable Rate Notes" for additional information with respect to demand instruments that may be purchased by the Fund. The Fund may invest in participation certificates even if the underlying obligations carry stated maturities in excess of thirteen months, upon compliance with certain conditions contained in Rule 2a-7. Loan participation certificates are considered by the Fund to be "illiquid" for purposes of its investment policies with respect to illiquid securities as set forth under Illiquid Securities below.

Illiquid Securities. The Fund will not knowingly invest more than 10% of the value of its total assets in illiquid securities, including time deposits and repurchase agreements having maturities longer than seven days. Securities that have readily available market quotations are not deemed illiquid for purposes of this limitation (irrespective of any legal or contractual restrictions on resale). The Fund may invest in commercial obligations issued in reliance on the so-called "private placement exemption" from registration afforded by Section 4(2) of the Securities Act of 1933, as amended ("Section 4(2) paper"). The Fund may also purchase securities that are not registered under the Securities Act of 1933, as amended, but which can be sold to qualified institutional buyers in accordance with Rule 144A under that Act ("Rule 144A securities"). Section 4(2) paper is restricted as to disposition under the federal securities laws, and generally is sold to institutional investors such as the Fund who agree that they are purchasing the paper for investment and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) paper normally is resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers who make a market in the Section 4(2) paper, thus providing liquidity. Rule 144A securities generally must be sold to other qualified institutional buyers. If a particular investment in Section 4(2) paper or Rule 144A securities is not determined to be liquid, that investment will be included within the 10% limitation on investment in illiquid securities. The Fund's LBGAM will monitor the liquidity of such restricted securities under the supervision of the Board of Directors. See "Investment Objective and Policies - Additional Information on Portfolio Instruments and Investment Practices - Illiquid and Restricted Securities" in

the Statement of Additional Information.

Repurchase Agreements. The Fund may purchase instruments from financial institutions, such as banks and broker-dealers, subject to the seller's agreement to repurchase them at an agreed upon time and price ("repurchase agreements"). The seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement at not less than the repurchase price. Default by the seller would, however, expose the Fund to possible loss because of adverse market action or delay in connection with the disposition of the underlying obligations.

Other Money Market Funds. The Fund may invest up to 10% of the value of its total assets in shares of other money market funds. The Fund will invest in other money market funds only if such funds are subject to the requirements of Rule 2a-7 and are considered to present minimal credit risks. The Fund's Investment Adviser will monitor the policies and investments of other money market funds in which it invests, based on information furnished to shareholders of those funds, with respect to their compliance with their investment objectives and Rule 2a-7.

Stand-by Commitments. The Fund may enter into put transactions, including transactions sometimes referred to as stand-by commitments, with respect to securities held in its portfolio. In a put transaction, the Fund acquires the right to sell a security at an agreed upon price within a specified period prior to its maturity date, and a stand-by commitment entitles the Fund to same-day settlement and to receive an exercise price equal to the amortized cost of the underlying security plus accrued interest, if any, at the time of exercise. In the event that the party obligated to purchase the underlying security from the Fund defaults on its obligation to purchase the underlying security, then the Fund might be unable to recover all or a portion of any loss sustained from having to sell the security elsewhere. Acquisition of puts will have the effect of increasing the cost of securities subject to the put and thereby reducing the yields otherwise available from such securities.

Borrowing. The Fund may borrow only from banks or, subject to obtaining exemptive relief from the SEC, from other funds advised by Lehman Brothers or its affiliates (as described below under "Interfund Lending Program"), or by entering into reverse repurchase agreements, in aggregate amounts not to exceed 33-1/3% of its total assets (including the amount borrowed) less its liabilities (excluding the amount borrowed), and only for temporary or emergency purposes. Bank borrowings may be from U.S. or foreign banks and may be secured or unsecured. The Fund may also borrow by entering into reverse repurchase agreements, pursuant to which it would sell portfolio securities to financial institutions, such as banks and broker-dealers, and agree to repurchase them at an agreed upon date and price. The Fund would also consider entering into reverse repurchase agreements to avoid otherwise selling securities during unfavorable market conditions to meet redemptions. Reverse repurchase agreements involve the risk that the market value of the portfolio securities sold by the Fund may decline below the price of the securities the Fund is obligated to repurchase.

Loans of Portfolio Securities. The Fund may lend its portfolio securities consistent with its investment policies. The Fund may lend portfolio securities against collateral, consisting of cash or securities which are consistent with its permitted investments, which is equal at all times to at least 100% of the value of the securities loaned. There is no limitation on the amount of securities that may be loaned. Such loans would involve risks of delay in receiving additional collateral or in recovering the securities loaned or even loss of rights in the collateral should the borrower of the securities fail financially. However, loans will be made only to borrowers deemed by the Fund's investment adviser to be of good standing and only when, in the judgment of the Fund's investment adviser, the income to be earned from the loans justifies the attendant risks.

Interfund Lending Program. Subject to obtaining exemptive relief from the SEC, the Fund may lend money to and, in the circumstances described under "Borrowing" above, borrow money from, other funds advised by Lehman Brothers

or its affiliates. The Fund will only borrow through the program when costs are equal to or lower than the costs for bank loans. The Fund anticipates that an exemptive order permitting interfund loans, if obtained from the SEC, will impose various conditions on the Fund, including limitations on the duration of interfund loans and on the percentage of the Fund's assets that may be loaned or borrowed through the program. Loans may be called on one day's notice and the Fund may have to borrow from a bank at a higher rate if an interfund loan is called or not renewed. Any delay in repayment to a lending fund could result in a lost investment opportunity or additional borrowing costs.

Risk Factors and Special Considerations

Because the Fund will invest primarily in obligations issued by the State of New York and its cities, municipalities and other public authorities, it is more susceptible to factors adversely affecting issuers of such obligations than a comparable municipal bond fund that is not so concentrated. New York State, New York City and other debt-issuing entities located in New York State have, at various times in the past, encountered financial difficulties. A continuation or recurrence of the financial difficulties previously experienced by the issuers of New York Municipal Obligations could result in defaults or declines in the market values of those issuers' existing obligations and, possibly, in the obligations of other issuers of New York Municipal Obligations. If either New York State or any of its local governmental entities is unable to meet its financial obligations, the income derived by the Fund and its ability to preserve capital and liquidity could be adversely affected. See "Special Factors Affecting the Fund's Investment in New York Municipal Obligations" in the Statement of Additional Information for further information.

The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means that there are no limitations on the percentage of the Fund's assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest a greater proportion of its assets in the obligations of a small number of issuers and, as a result, may be subject to greater risk with respect to portfolio securities. The Fund intends to comply, however, with the diversification requirements imposed on regulated investment companies by the Code, which generally means that with respect to 50% of the Fund's portfolio, no more than 5% of the Fund's assets will be invested in any one issuer and with respect to the other 50% of the Fund's portfolio, not more than 25% of the Fund's assets will be invested in any one issuer. See the Statement of Additional Information under "Additional Information Concerning Taxes."

Purchase of Shares

Purchases of Select Shares may be made through a brokerage account maintained through Lehman Brothers or certain brokers that clear securities transactions through Lehman Brothers on a fully disclosed basis (an "Introducing Broker"). The Fund reserves the right to reject any purchase order and to suspend the offering of shares for a period of time.

The minimum initial investment in each class of the Fund is \$5,000 and the minimum subsequent investment is \$1,000. In addition, for participants with an automatic purchase arrangement in connection with their brokerage accounts, there is no minimum initial or subsequent investment. There are no minimum investment requirements for employees of Lehman Brothers and its affiliates. The Fund reserves the right at any time to vary the initial and subsequent investment minimums. No certificates are issued for Fund shares.

The Fund's shares are sold continuously at their net asset value next determined after a purchase order is received and becomes effective. A purchase order becomes effective on the day the Fund receives sufficient federal funds to cover the purchase price and will be priced at the net asset value next determined after the Fund's Transfer Agent receives such federal

funds. See "Valuation of Shares." Investors should note that there may be a delay between the time when Lehman Brothers or an Introducing Broker receives purchase proceeds and the time when those proceeds are transmitted to the Fund and that Lehman Brothers or the Introducing Broker, as applicable, may benefit from the use of temporarily uninvested funds. Shares will begin to accrue income dividends on the day the purchase order becomes effective.

Redemption of Shares

Holders of Select Shares may redeem their shares without charge on any day on which the Fund calculates its net asset value. Redemption requests received in proper form prior to noon, Eastern time, on any day the Fund calculates its net asset value will be priced at the net asset value per share determined at noon on that day and redemption requests received after such time will be priced at the net asset value next determined. The Fund will normally transmit redemption proceeds for credit to the shareholder's account at Lehman Brothers or the Introducing Broker at no charge on the day of receipt of the redemption request.

A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected, which may take up to 15 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds by bank wire or with a certified or cashier's check.

Shareholders who purchase securities through Lehman Brothers or the Introducing Broker may take advantage of special redemption procedures under which Fund shares will be redeemed automatically to the extent necessary to satisfy debit balances arising in the shareholder's account with Lehman Brothers or the Introducing Broker. One example of how an automatic redemption may occur involves the purchase of securities. If a shareholder purchases securities but does not pay for them by the settlement date, the number of Shares necessary to cover the debit will be redeemed automatically as of the settlement date, which currently occurs five business days after the trade date but which will, effective June 7, 1995, occur three days after the trade date. Shareholders not wishing to participate in these arrangements should notify their Lehman Brothers Investment Representative.

A Fund account that is reduced by a shareholder to a value of \$1,000 or less may be subject to redemption by the Fund, but only after the shareholder has been given at least 30 days in which to increase the account balance to more than \$1,000. In addition, the Fund may redeem shares involuntarily or suspend the right of redemption as permitted under the 1940 Act, as described in the Statement of Additional Information under "Additional Purchase and Redemption Information."

Fund shares may be redeemed in one of the following ways:

REDEMPTION THROUGH LEHMAN BROTHERS

Redemption requests may be made through Lehman Brothers or an Introducing Broker.

REDEMPTION BY MAIL

Shares held by Lehman Brothers on behalf of investors must be redeemed by submitting a written request to a Lehman Brothers Investment Representative. All other shares may be redeemed by submitting a written request for redemption to the Fund's Transfer Agent:

Lehman Brothers Funds, Inc.
c/o The Shareholder Services Group, Inc.
P.O. Box 9184

A written redemption request to the Fund's transfer agent must (a) state the class and number of shares to be redeemed, (b) indicate the name of the Fund from which such shares are to be redeemed, (c) identify the shareholder's account number and (d) be signed by each registered owner exactly as the shares are registered. Any signature appearing on a redemption request must be guaranteed by a domestic bank, a savings and loan institution, a domestic credit union, a member bank of the Federal Reserve System or a member firm of a national securities exchange. The Fund's transfer agent may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees and guardians. A redemption request will not be deemed to be properly received until the Fund's transfer agent receives all required documents in proper form.

Exchange Privilege

Shares of the Fund may be exchanged without charge for shares of the same class of certain other funds in the Lehman Brothers Group of Funds. In exchanging shares, a shareholder must meet the minimum initial investment requirement of the fund into which the exchange is being made and the shares involved must be legally available for sale in the state where the shareholder resides.

Orders for exchanges will only be accepted on days on which both funds involved determine their respective net asset values. To obtain information regarding the availability of funds into which shares of the Fund may be exchanged, investors should contact a Lehman Brothers Investment Representative.

Tax Effect. The exchange of shares of one fund for shares of another fund is treated for federal income tax purposes as a sale of the shares given in exchange by the shareholder. Therefore, an exchanging shareholder may realize a taxable gain or loss in connection with an exchange.

Additional Information Regarding the Exchange Privilege. Shareholders exercising the exchange privilege with any of the other funds in the Lehman Brothers Group of Funds should review the prospectus of that fund carefully prior to making an exchange. Lehman Brothers reserves the right to reject any exchange request. The exchange privilege may be modified or terminated at any time after notice to shareholders. For further information regarding the exchange privilege or to obtain the current prospectuses for members of the Lehman Brothers Group of Funds, investors should contact a Lehman Brothers Investment Representative.

Valuation of Shares

The net asset value per Select Share is calculated on each day, Monday through Friday, except on days on which the New York Stock Exchange or the Federal Reserve Bank of Boston is closed. Currently one or both of these institutions are scheduled to be closed on the customary national business holidays of New Year's Day, Martin Luther King, Jr.'s Birthday (observed), Presidents' Day (observed), Good Friday, Memorial Day (observed), Independence Day, Labor Day, Columbus Day (observed), Veterans Day, Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively. The net asset value per Select Share is calculated at noon, Eastern time, on each day on which the Fund computes its net asset value. The net asset value per Select Share is computed by dividing the value of the net assets of the Fund attributable to the Select Shares by the total number of shares of that class outstanding. The Fund's assets are valued on the basis of amortized cost, which involves valuing a portfolio instrument at its cost and, thereafter, assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating

interest rates on the market value of the instrument. The Fund seeks to maintain a constant net asset value of \$1.00 per share, although there can be no assurance that it can do so on a continuing basis. Further information regarding the Fund's valuation policies is contained in the Statement of Additional Information.

Management of the Fund

The business and affairs of the Fund are managed under the direction of the Company's Board of Directors. The Board of Directors approves all significant agreements between the Company and the persons or companies that furnish services to the Fund, including agreements with its Distributor, Investment Adviser, Administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to its Investment Adviser and Administrator. One of the directors and all of the Company's officers are affiliated with Lehman Brothers, The Shareholder Services Group, Inc. or one of their affiliates. The Statement of Additional Information relating to the Fund contains general background information regarding each director and executive officer of the Company.

INVESTMENT ADVISER - LEHMAN BROTHERS GLOBAL ASSET MANAGEMENT INC.

Lehman Brothers Global Asset Management Inc. ("LBGAM") serves as the Investment Adviser to the Fund. LBGAM, together with other Lehman Brothers investment advisory affiliates, had approximately \$10 billion in assets under management as of December 31, 1994. Subject to the supervision and direction of the Company's Board of Directors, LBGAM manages the Fund's portfolio in accordance with the Fund's investment objective and policies, makes investment decisions for the Fund and places orders to purchase and sell securities. As compensation for the services of LBGAM as Investment Adviser to the Fund, LBGAM is entitled to receive a monthly fee from the Fund at the annual rate of 0.30% of the value of the Fund's average daily net assets.

LBGAM is located at 3 World Financial Center, New York, New York 10285. LBGAM is a wholly-owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings").

ADMINISTRATOR AND TRANSFER AGENT - THE SHAREHOLDER SERVICES GROUP, INC.

The Shareholder Services Group, Inc. ("TSSG"), located at 53 State Street, Boston, Massachusetts 02109, serves as the Fund's Administrator and transfer agent. TSSG is a wholly-owned subsidiary of First Data Corporation. As Administrator, TSSG calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. As compensation for TSSG's services as Administrator, TSSG is entitled to receive a monthly fee from the Fund at the annual rate of 0.20% of the value of the Fund's average daily net assets. TSSG is also entitled to a monthly fee from the Fund for its services as transfer agent.

On May 6, 1994, TSSG acquired the third party mutual fund administration business of The Boston Company Advisors, Inc., an indirect wholly-owned subsidiary of Mellon Bank Corporation ("Mellon"). In connection with this transaction, Mellon assigned to TSSG its agreement with Lehman Brothers that Lehman Brothers and its affiliates, consistent with their fiduciary duties and assuming certain service quality standards are met, would recommend TSSG as the provider of administration services to the Fund. This duty to recommend expires on May 21, 2000. In addition, under the terms of the Stock Purchase Agreement dated September 14, 1992 between Mellon and Lehman Brothers (then named Shearson Lehman Brothers Inc.). Lehman Brothers agreed to recommend Boston Safe Deposit and Trust Company ("Boston Safe"), an indirect wholly-owned subsidiary of Mellon, as custodian of mutual funds affiliated with Lehman Brothers until May 21, 2000 to the extent consistent with its fiduciary duties and other applicable law.

DISTRIBUTOR AND PLAN OF DISTRIBUTION

Lehman Brothers, located at 3 World Financial Center, New York, New York 10285, is the Distributor of the Fund's shares. Lehman Brothers, a leading full service investment firm, meets the diverse financial needs of individuals, institutions and governments around the world.

The Company has adopted a plan of distribution with respect to each class of the Fund (the "Plan of Distribution") pursuant to Rule 12b-1 under the 1940 Act. Under the Plan of Distribution, the Fund has agreed with respect to the Select Shares to pay Lehman Brothers monthly for advertising, marketing and distributing its shares at an annual rate of 0.25% of its average daily net assets. Under the Plan of Distribution, Lehman Brothers may retain all or a portion of the payments made to it pursuant to the Plan and may make payments to its Investment Representatives or Introducing Brokers that engage in the sale of such classes of Fund shares. The Plan of Distribution also provides that Lehman Brothers may make payments to assist in the distribution of each class of the Fund's shares out of the other fees received by it or its affiliates from the Fund, its past profits or any other sources available to it. From time to time, Lehman Brothers may waive receipt of fees under the Plan of Distribution while retaining the ability to be paid under such Plan thereafter. The fees payable to Lehman Brothers under the Plan of Distribution for advertising, marketing and distributing such shares of the Fund and payments by Lehman Brothers to its Investment Representatives or Introducing Brokers are payable without regard to actual expenses incurred. Lehman Brothers Investment Representatives and any other person entitled to receive compensation for selling shares of the Fund may receive different levels of compensation for selling one particular class of shares over another in the Fund.

CUSTODIAN - BOSTON SAFE DEPOSIT AND TRUST COMPANY

Boston Safe, an indirect wholly-owned subsidiary of Mellon, is located at One Boston Place, Boston, Massachusetts 02108 and serves as the Fund's Custodian.

EXPENSES

The Fund's expenses include taxes, interest, fees and salaries of the directors and officers who are not directors, officers or employees of the Fund's service contractors, SEC fees, state securities qualification fees, costs of preparing and printing prospectuses for regulatory purposes and for distribution to existing shareholders, advisory and administration fees, charges of the custodian, transfer agent and dividend disbursing agent, certain insurance premiums, outside auditing and legal expenses, costs of shareholder reports and shareholder meetings and any extraordinary expenses. The Fund also pays for brokerage fees and commissions (if any) in connection with the purchase and sale of portfolio securities. Fund expenses are allocated to a particular class based on either expenses identifiable to the class or relative net assets of the class and the other classes of Fund shares. LBGAM and TSSG have agreed to reimburse the Fund to the extent required by applicable state law for certain expenses that are described in the Statement of Additional Information relating to the Fund.

Dividends

The Fund declares dividends from its net investment income (i.e., income other than net realized long- and short-term capital gains) on each day the Fund is open for business and pays dividends monthly. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the close of the Fund's fiscal year in which they have been earned. Unless a shareholder instructs the Fund to pay dividends or capital gains distributions in cash and credit them to the shareholder's account at Lehman Brothers, dividends and distributions from the Fund will be reinvested automatically in additional shares of the same class of the Fund at net asset value. Shares redeemed during a month will be entitled to dividends up to,

but not including, the date of redemption, and purchased shares will be entitled to dividends and distributions declared on the day the purchase order becomes effective. The Fund does not expect to realize net long-term capital gains.

Taxes

The Fund will be treated as a separate entity for federal income tax purposes, and thus the provisions of the Code applicable to regulated investment companies generally will be applied to each series of the Company separately, rather than to the Company as a whole. In addition, net realized long-term capital gains, net investment income and operating expenses will be determined separately for each series of the Company. The Fund intends to qualify each year as a "regulated investment company" under the Code. A regulated investment company is exempt from federal income tax on amounts distributed to its shareholders.

Qualification as a regulated investment company under the Code for a taxable year requires, among other things, that the Fund distribute to its shareholders each taxable year (a) at least 90% of its investment company taxable income for such year and (b) at least 90% of the excess of its tax-exempt interest income over certain deductions disallowed with respect to such income. In general, the Fund's investment company taxable income will be its taxable income (including dividends and short-term capital gains, if any) subject to certain adjustments and excluding the excess of any net long-term capital gain for the taxable year over the net short-term capital loss, if any, for such year. The Fund intends to distribute substantially all of its investment company taxable income each year. Such distributions will be taxable as ordinary income to Fund shareholders who are not currently exempt from federal income taxes, whether such income is received in cash or reinvested in additional shares. (Federal income taxes for distributions to an IRA or a qualified retirement plan are deferred under the Code.) It is not anticipated that a significant portion of the Fund's distributions will be eligible for the dividends received deduction for corporations. The Fund does not expect to realize long-term capital gains and, therefore, does not contemplate payment of any "capital gain dividends" as described in the Code.

The Fund may hold without limit certain private activity bonds issued after August 7, 1986. Shareholders must include, as an item of tax preference, the portion of dividends paid by the Fund that is attributable to interest on such bonds in their federal alternative minimum taxable income for purposes of determining liability (if any) for the 26% or 28% alternative minimum tax applicable to individuals and the 20% alternative minimum tax and the environmental tax applicable to corporations. Corporate shareholders must also take all exempt-interest dividends into account in determining certain adjustments for federal alternative minimum tax and environmental tax purposes. The environmental tax applicable to corporations is imposed at the rate of .12% on the excess of the corporation's modified federal alternative minimum taxable income over \$2,000,000. Shareholders receiving Social Security benefits should note that all exempt-interest dividends will be taken into account in determining the taxability of such benefits.

Dividends and distributions by the Fund are generally taxable to the shareholders at the time the dividend or distribution is made. Dividends declared in October, November or December of any year payable to shareholders of record on a specified date in such months will be deemed to have been received by the shareholders and paid by the Fund on December 31 of such year in the event such dividends are actually paid during January of the following year.

Dividends paid by the Fund which are derived from exempt-interest income may be treated by the Fund's shareholders as items of interest excludable from their gross income under Section 103(a) of the Code, unless under the circumstances applicable to the particular shareholder the exclusion would be disallowed. (See the Statement of Additional Information under "Additional

Information Concerning Taxes.")

To the extent, if any, dividends paid to shareholders by the Fund are derived from taxable income or from long-term or short-term capital gains, such dividends will not be exempt from federal income tax, whether such dividends are paid in the form of cash or additional shares, and may also be subject to state and local taxes. Under state or local law, the Fund's distributions of net investment income may be taxable to investors as dividend income though a substantial portion of such distributions may be derived from interest on tax-exempt obligations which, if realized directly, would be exempt from such income taxes.

The Fund may be required to withhold federal income tax at a rate of 31% ("backup withholding) from dividends and redemption proceeds paid to non-corporate shareholders. This tax may be withheld from dividends if (i) the shareholder fails to furnish the Fund with the shareholder's correct taxpayer identification number, (ii) the Internal Revenue Service ("IRS") notifies the Fund that the shareholder has failed to report properly certain interest and dividend income to the IRS and to respond to notices to that effect, or (iii) when required to do so, the shareholder fails to certify that he or she is not subject to backup withholding.

New York State and Local Tax Matters

Exempt-interest dividends paid to shareholders of the Fund will not be subject to New York State and New York City personal income taxes to the extent they represent interest income directly attributable to federally tax exempt obligations of the State of New York and its political subdivisions and instrumentalities (as well as certain other federally tax exempt obligations the interest on which is exempt from New York State and New York City personal income taxes.) The Fund intends that substantially all of the dividends it designates as exempt-interest dividends will also be exempt from New York State and New York City personal income taxes. Exempt-interest dividends paid by the Fund, however, may be taxable to shareholders who are subject to taxation outside New York State and New York City.

Corporate shareholders subject to New York City franchise tax or New York City general corporation tax will be required to include all dividends received from the Fund (including exempt-interest dividends) as net income subject to such taxes. Furthermore, for purposes of calculating a corporate shareholder's liability for such taxes under the alternative tax base measured by business and investment capital, such shareholder's shares of the Fund will be included in computing such shareholder's investment capital.

Shareholders will not be subject to the New York City unincorporated business tax solely by reason of their ownership of shares in the Fund. If a shareholder is subject to the New York City unincorporated business tax, income and gains derived from the Fund will be subject to such tax, except for exempt-interest dividend income that is directly related to interest on New York municipal obligations. Shares of the Fund will be exempt from local property taxes in New York State and New York City.

A notice detailing the federal and New York tax status of dividends and distributions paid by the Fund will be mailed annually to the Fund's shareholder.

The foregoing discussion is only a brief summary of some of the important federal tax considerations generally affecting the Fund and its shareholders. As noted above, IRAs receive special tax treatment. No attempt is made to present a detailed explanation of the federal, state or local income tax treatment of the Fund or its shareholders, and this discussion is not intended as a substitute for careful tax planning. Accordingly, potential investors in the Fund should consult their tax advisers with specific reference to their own tax situation.

Yields

From time to time, the "yields," effective yields" and "tax-equivalent yields" for shares of each class of shares of the Fund may be quoted in advertisements or in reports to shareholders. Yield quotations are computed separately for each class of shares of the Fund. The "yield" quoted in advertisements for each class of the Fund's shares refers to the income generated by an investment in that class over a specified period (such as a seven-day period) identified in the advertisement. This income is then "annualized"; that is, the amount of income generated by the investment during that period is assumed to be generated each such period over a 52-week or one-year period and is shown as a percentage of the investment. The "effective yield" is calculated similarly but, when annualized, the income earned by an investment in a given Class of shares is assumed to be reinvested. The "effective yield" will be slightly higher than the "yield" because of the compounding effect of this assumed reinvestment. The "tax-equivalent yield" demonstrates the level of taxable yield necessary to produce an after tax yield equivalent to the Fund's tax-free yield. It is calculated by increasing the yield (calculated as above) by the amount necessary to reflect the payment of federal taxes at a stated rate. The "tax-equivalent yield" will always be higher than the "yield."

The Fund's yields may be compared to those of other mutual funds with similar objectives, to bond or other relevant indices, or to rankings prepared by independent services or other financial or industry publications that monitor the performance of mutual funds, or to the average yields reported by the Bank Rate Monitor from money market deposit accounts offered by the 50 leading banks and thrift institutions in the top five standard metropolitan statistical areas. For example, such data are reported in national financial publications such as IBC/Donoghue's Money Fund Report, Ibbotson Associates of Chicago, The Wall Street Journal and The New York Times, reports prepared by Lipper Analytical Service, Inc. and publications of a local or regional nature.

The Fund's yield figures represent past performance, will fluctuate and should not be considered as representative of future results. The yield of any investment is generally a function of portfolio quality and maturity, type of investment and operating expenses. The methods used to compute the yields on each class of the Fund's shares are described in more detail in the Statement of Additional Information. Investors may call 800-861-4171 to obtain current yield information.

Additional Information

The Company was incorporated under the laws of the State of Maryland on May 5, 1993. The authorized capital stock of the Company consists of 10,000,000,000 shares having a par value of \$.001 per share. The Company's Charter currently authorizes the issuance of several series of shares, corresponding to shares of the Fund as well as shares of the other investment portfolios of the Company. The Company's Board of Directors may, in the future, authorize the issuance of additional series of capital stock representing shares of additional investment portfolios or additional classes of shares of the Fund or the Company's other investment portfolios.

The Company has received an order from the SEC permitting it, subject to certain terms and conditions, to establish multiple classes of shares within each series. The Board of Directors of the Company has authorized the establishment of two classes of shares in the Fund: "Select Shares," and "Global Clearing Shares". This Prospectus relates only to Select Shares of the Fund. The shares of each class of the Fund represent interests in the Fund in proportion to their relative net asset values.

The Global Clearing Shares offered by the Fund are subject to a distribution

fee payable under the Plan of Distribution at the annual rate of up to 0.50% of the Fund's average daily net assets attributable to that class. Global Clearing Shares are available only through certain Introducing Brokers and are exchangeable only for Global Clearing Shares of other funds in the Lehman Brothers Group of Funds. Certain Fund expenses, such as transfer agency expenses, are allocated separately to each class of the Fund's shares based on expenses identifiable by class. An Investment Representative may receive different levels of compensation for selling different classes of shares.

All shares of the Company have equal voting rights and will be voted in the aggregate, and not by series or class, except where voting by series or class is required by law or where the matter involved affects only one series or class. Under the corporate law of Maryland, the Company's state of incorporation, and the Company's By-Laws (except as required under the 1940 Act), the Company is not required and does not currently intend to hold annual meetings of shareholders for the election of directors. Shareholders, however, do have the right to call for a meeting to consider the removal of one or more of the Company's directors if such a request is made, in writing, by the holders of at least 10% of the Company's outstanding voting securities.

All shares of the Company, when issued, will be fully paid and nonassessable.

The Fund sends shareholders a semi-annual and audited annual report, which includes listings of investment securities held by the Fund at the end of the period covered. In an effort to reduce the Fund's printing and mailing costs, the Fund may consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record would receive a single copy of each report. In addition, the Fund may consolidate the mailing of its Prospectus so that a shareholder having multiple accounts would receive a single Prospectus annually. When the Fund's annual report is combined with the Prospectus into a single document, the Fund will mail the combined document to each shareholder to comply with legal requirements. Any shareholder who does not want this consolidation to apply to his or her account should contact his or her Lehman Brothers Investment Representative or the Fund's transfer agent. Shareholders may direct inquiries regarding the Fund to their Lehman Brothers Investment Representatives.

LEHMAN BROTHERS

Member SIPC

3 WORLD FINANCIAL CENTER, NEW YORK, NEW YORK 10285

Lehman Brothers Funds, Inc.

Lehman Brothers New York Municipal Money Market Fund

Global Clearing Shares

Prospectus begins on page one.

Dated May ___, 1995

Information contained herein is subject to completion or amendment.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion, Dated February 22, 1995

Lehman Brothers New York Municipal Money Market Fund

This Prospectus describes Lehman Brothers New York Municipal Money Market Fund (the "Fund"), a separate, non-diversified money market portfolio of Lehman Brothers Funds, Inc. (the "Company"), an open-end management investment company. This Prospectus relates to Global Clearing Shares, a class of shares offered by the Fund.

[Continued on next page.]

Shares of the Fund are not deposits or obligations of, or guaranteed or endorsed by, any bank, and such shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Shares of the Fund involve certain investment risks, including the possible loss of principal. There can be no assurance that the Fund will be able to maintain a net asset value of \$1.00 per share.

Lehman Brothers Inc. sponsors the Fund and acts as Distributor of the Fund's shares. Lehman Brothers Global Asset Management Inc. serves as the Fund's Investment Adviser.

The address of the Fund is 3 World Financial Center, New York, New York 10285. Yield and other information regarding the Fund may be obtained through a Lehman Brothers Investment Representative or by calling 800-861-4171.

This Prospectus briefly sets forth certain information about the Fund that investors should know before investing. Investors are advised to read this Prospectus and retain it for future reference. Additional information about the Fund, contained in a Statement of Additional Information dated May ___, 1995, and as may be amended or supplemented from time to time, has been filed with the Securities and Exchange Commission and is available to investors without charge by calling 800-861-4171. The Statement of Additional Information is incorporated in its entirety by reference into this Prospectus.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

LEHMAN BROTHERS

[Continued from previous page.]

The Fund's investment objective is to provide investors with as high a level of current income exempt from federal income tax and from New York State and New York City personal income taxes as is consistent with stability of principal. The Fund will seek to invest substantially all of its total assets in New York Municipal Obligations (as defined herein). All or a portion of the Fund's dividends may be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

TABLE OF CONTENTS

<TABLE>

<CAPTION>

<S>

<C>

Page

Benefits to Investors	3
Background and Expense Information	3
Investment Objective and Policies	4
Purchase of Shares	11
Redemption of Shares	12
Exchange Privilege	13
Valuation of Shares	13
Management of the Fund	14
Dividends	16
Taxes	16
Yields	18
Additional Information	19

</TABLE>

No person has been authorized to give any information or to make any representations not contained in this Prospectus, or in the Fund's Statement of Additional Information incorporated herein by reference, in connection with the offering made by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Fund or its Distributor. This Prospectus does not constitute an offering by the Fund or by the Distributor in any jurisdiction in which such offering may not lawfully be made.

Benefits to Investors

The Fund offers investors several important benefits:

- o A professionally managed portfolio of high quality money market instruments exempt from federal income taxes and both New York State and New York City personal income taxes.
- o Investment liquidity through convenient purchase and redemption procedures.
- o Stability of principal through maintenance of a constant net asset value of \$1.00 per share (although there is no assurance that it can do so on a continuing basis).

o A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities.

Background and Expense Information

The Fund is authorized to offer multiple classes of shares. One class of shares, Global Clearing Shares, is offered by this Prospectus. The Fund also offers an additional class of shares, Select Shares, by a separate prospectus and contemplates that it may offer additional classes of shares in the future. Each share of the Fund accrues income in the same manner, but certain expenses differ based upon the class. See "Additional Information." The following Expense Summary lists the costs and expenses that a shareholder can expect to incur as an investor in Global Clearing Shares of the Fund based upon estimated operating expenses for the current fiscal year.

<TABLE>

Expense Summary

<CAPTION>

<S>

<C>

SHAREHOLDER TRANSACTION EXPENSES

GLOBAL CLEARING

SHARES

ANNUAL FUND OPERATING EXPENSES

(as a percentage of average net assets)

Advisory Fees (after waivers)*

___%

Rule 12b-1 Fees (after waivers)**

___%

Other Expenses - including Administration

Fees

(after waivers)

___%

Total Fund Operating Expenses

(after waivers)

___%

</TABLE>

* Reflects voluntary waivers of advisory fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of advisory fees to average net assets would be ___%.

** Reflects voluntary waivers of Rule 12b-1 fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of Rule 12b-1 fees to average net assets would be ___%.

Reflects voluntary waivers of administration fees, which are expected to continue in effect until at least one year from the date of this Prospectus. Absent such voluntary waivers, the ratio of other expenses to average net assets would be ___%.

Absent the voluntary waivers referred to above, the ratio of total fund

operating expenses to average net assets would be ____%.

Example

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return and complete redemption at the end of each time period:

<TABLE>
<CAPTION>

1
YEAR
3
YEAR

<S>
<C>
<C>

Global Clearing Shares:

\$ ____
\$ ____

</TABLE>

The foregoing should not be considered a representation of actual expenses and rates of return, which may be greater or less than those shown. The foregoing table has not been audited by the Fund's independent auditors.

Long-term holders of mutual fund shares which bear 12b-1 fees, such as the Global Clearing shares, may pay more than the economic equivalent of the maximum front-end sales charge permitted by rules of the National Association of Securities Dealers, Inc.

Investment Objective and Policies

In General

The Fund's investment objective is to provide investors with as high a level of current income exempt from federal income tax and New York State and New York City personal income taxes as is consistent with stability of principal. All or a portion of the Fund's dividends may be a specific tax preference item for purposes of the federal individual and corporate alternative minimum taxes. There can be no assurance that the Fund will achieve its investment objective.

The Fund invests only in securities which are purchased with and payable in U.S. dollars and which have (or, pursuant to regulations adopted by the Securities and Exchange Commission (the "SEC"), will be deemed to have) remaining maturities of thirteen months or less at the date of purchase by the Fund. The Fund maintains a dollar-weighted average portfolio maturity of 90 days or less. The Fund follows these policies to maintain a constant net asset value of \$1.00 per share, although there is no assurance that it can do so on a continuing basis.

The Fund will limit its portfolio investments to securities that are determined by its Investment Adviser to present minimal credit risks pursuant to guidelines established by the Company's Board of Directors and which are "Eligible Securities" at the time of acquisition by the Fund. The term "Eligible Securities" includes securities rated by the "Requisite NRSROs" in one of the two highest short-term rating categories, securities of issuers that have received such ratings with respect to other short-term debt securities and comparable unrated securities. "Requisite NRSROs" means (a) any two nationally recognized statistical rating organizations ("NRSROs") that have issued a rating with respect to a security or class of debt obligations of an issuer, or (b) one NRSRO, if only one NRSRO has issued such a rating at

the time that the Fund acquires the security. A discussion of the ratings categories of the NRSROs is contained in the Appendix to the Statement of Additional Information.

In pursuing its investment objective, the Fund, which operates as a non-diversified investment company, will seek to invest substantially all (i.e. at least 80%) of its total assets in New York Municipal Obligations (as defined below). To the extent that the unavailability of suitable New York Municipal Obligations prevents the Fund from investing substantially all of its assets in such obligations, the Fund may purchase Other Municipal Obligations (as defined below). Under normal market conditions, however, the Fund will invest at least 65% of its total assets in New York Municipal Obligations, and at least 80% of its total assets in Municipal Obligations (as defined below). Except as described below, the Fund will not knowingly purchase securities the interest on which is subject to federal income tax. (See, however, "Taxes" below concerning the treatment of exempt-interest dividends paid by the Fund for purposes of the federal alternative minimum tax applicable to particular classes of investors.)

As used herein, "Municipal Obligations" are obligations exempt from federal income tax that are issued by or on behalf of states, territories and possessions of the United States, the District of Columbia, and their respective authorities, agencies, instrumentalities and political subdivisions, and derivative securities exempt from federal income tax such as tender option bonds, participations, beneficial interests in trusts and partnership interests, "New York Municipal Obligations" are Municipal Obligations the interest on which is exempt from regular federal income tax and from the personal income taxes of New York State and New York City, and "Other Municipal Obligations" are Municipal Obligations other than New York Municipal Obligations. New York Municipal Obligations include municipal securities issued by the State of New York and its political sub-divisions, as well as certain other governmental issuers such as the Commonwealth of Puerto Rico. Dividends derived from interest on Other Municipal Obligations will be exempt from federal income tax but may be subject to New York State and New York City personal income taxes. Opinions relating to the validity of Municipal Obligations and to the exemption of interest thereon from federal income tax (and, with respect to New York Municipal Obligations, to the exemption of interest thereon from New York State and New York City personal income taxes as well) are rendered by bond counsel to the respective issuers at the time of issuance, and opinions relating to the validity of and the tax-exempt status of payments received by the Fund from tax-exempt derivatives are rendered by counsel to the respective sponsors of such derivatives. The Fund and its Investment Adviser will rely on such opinions and will not review independently the underlying proceedings relating to the issuance of Municipal Obligations and New York Municipal Obligations, the creation of any tax-exempt derivatives or the bases for such opinions.

The Fund may hold uninvested cash reserves pending investment and during temporary defensive periods including when suitable New York or Other Municipal Obligations are unavailable. There is no percentage limitation on the amount of assets which may be held uninvested. Uninvested cash reserves will not earn income. In addition to or in lieu of holding uninvested cash reserves under the aforementioned circumstances, the Fund may elect to invest without limitation in high quality, short-term instruments, including U.S. government and U.S. and non-U.S. bank and commercial obligations, and repurchase agreements with respect to such instruments, the income from which is subject to federal income tax and New York State and New York City personal income tax. If at some future date, in the opinion of the Fund's Investment Adviser, adverse conditions prevail in the market for New York Municipal Obligations (including conditions under which such obligations are unavailable for investment), the Fund may, for temporary defensive purposes, invest more than 35% of its assets in Other Municipal Obligations.

Types of Municipal Obligations

The two principal classifications of Municipal Obligations that may be held by the Fund are "general obligation" securities and "revenue" securities. General

obligation securities are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue securities are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as the user of the facility being financed. Revenue securities may include private activity bonds. Such bonds may be issued by or on behalf of public authorities to finance various privately operated facilities and are not payable from the unrestricted revenues of the issuer. As a result, the credit quality of private activity bonds is frequently related directly to the credit standing of private corporations or other entities.

The Fund's portfolio may also include "moral obligation" securities, which are normally issued by special purpose public authorities. If the issuer of moral obligation securities is unable to meet its debt service obligations from current revenues, it may draw on a reserve fund, the restoration of which is a moral commitment but not a legal obligation of the state or municipality that created the issuer.

Although the Fund may invest more than 25% of its net assets in New York Municipal Obligations the interest on which is paid solely from revenues of similar projects, it does not presently intend to do so on a regular basis. To the extent the Fund's assets are concentrated in New York Municipal Obligations that are payable from the revenues of similar projects or are private activity bonds, the Fund will be subject to the peculiar risks presented by the laws and economic conditions relating to such projects and bonds to a greater extent than it would be if its assets were not so concentrated.

INVESTMENT LIMITATIONS

The investment limitations enumerated below, as well as the Fund's policy with respect to investing at least 80% of its total assets in Municipal Obligations, are fundamental and may not be changed by the Company's Board of Directors without the affirmative vote of the holders of a majority of the Fund's outstanding shares. The Fund's investment objective and the other investment policies described herein may be changed by the Board of Directors at any time. If there is a change in the investment objective of the Fund, shareholders of the Fund should consider whether the Fund remains an appropriate investment in light of their then current financial position and needs. (A complete list of the Fund's investment limitations that cannot be changed without a vote of shareholders is contained in the Statement of Additional Information under "Investment Objective and Policies.") The percentage limitations set forth below, as well as those contained elsewhere in this Prospectus and the Statement of Additional Information, apply at the time a transaction is effected, and a subsequent change in a percentage resulting from market fluctuations or any other cause other than an action by the Fund will not require the Fund to dispose of portfolio securities or to take other action to satisfy the percentage limitation.

* The Fund may not borrow money, except that the Fund may borrow money from banks or from other funds advised by Lehman Brothers Inc. ("Lehman Brothers") or its affiliates, and enter into reverse repurchase agreements, in each case for temporary or emergency purposes only (not for leveraging or investing) in aggregate amounts not exceeding 33 1/3% of the value of its total assets at the time of such borrowing. For purposes of the foregoing investment limitation, the term "total assets" shall be calculated after giving effect to the net proceeds of any borrowings and reduced by any liabilities and indebtedness other than such borrowings. Additional investments will not be made by the Fund when borrowings exceed 5% of its total assets; provided, however, that the Fund may increase its interest in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund while such borrowings are outstanding.

* The Fund may not purchase any securities which would cause 25% of more of the value of its total assets at the time of such purchase to be invested

in the securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments in U.S. Government Securities or New York Municipal Obligations (other than those backed only by the assets and revenues of non-governmental users), and provided further, that the Fund may invest all or substantially all of its assets in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund.

The Fund may, in the future, seek to achieve its investment objective by investing all of its assets in a no-load, open-end management investment company having the same investment objective and policies and substantially the same investment restrictions as those applicable to the Fund. In such event, the Fund's investment advisory agreement would be terminated. Such investment would be only if the Company's Board of Directors believes that the aggregate per share expenses of each class of the Fund and such other investment company will be less than or approximately equal to the expenses which each class of the Fund would incur if the Fund were to continue to retain the services of an investment adviser for the Fund and the assets of the Fund were to continue to be invested directly in portfolio securities.

OTHER INVESTMENT PRACTICES

Floating and Variable Rate Notes. The Fund may purchase variable or floating rate notes, which are instruments that provide for adjustments in the interest rate on certain reset dates or whenever a specified interest rate index changes, respectively. Such notes might not be actively traded in a secondary market but, in some cases, the Fund may be able to resell such notes in the dealer market. Variable and floating rate notes typically are rated by credit rating agencies, and their issuers must satisfy the same quality criteria as set forth above. The Fund invests in variable or floating rate notes only when the Investment Adviser deems the investment to involve minimal credit risk.

Certain of the floating or variable rate notes that may be purchased by the Fund may carry a demand feature that would permit the holder to tender them back to the issuer of the underlying instrument, or to a third party, at par value prior to maturity. Where necessary to ensure that such a note is an Eligible Security, the Fund will require that the issuer's obligation to pay the principal of the note be backed by an unconditional third-party letter or line of credit, guarantee or commitment to lend. If a floating or variable rate demand note is not actively traded in a secondary market, it may be difficult for the Fund to dispose of the note if the issuer were to default on its payment obligation or during periods that the Fund is not entitled to exercise its demand rights, and the Fund could, for this or other reasons, suffer a loss to the extent of the default. While, in general, the Fund will invest only in securities that mature within thirteen months of purchase, the Fund may invest in floating or variable rate demand notes which have nominal maturities in excess of thirteen months, if such instruments carry demand features that comply with conditions established by the SEC.

When-Issued and Delayed Delivery Securities. The Fund may purchase securities on a "when-issued" or delayed delivery basis. When-issued and delayed delivery securities are securities purchased for delivery beyond the normal settlement date at a stated price and yield. The Fund generally will not pay for such securities or start earning interest on them until they are received. Securities purchased on a when-issued or delayed delivery basis are recorded as an asset and are subject to changes in value based upon changes in the general level of interest rates. The Fund expects that commitments to purchase when-issued and delayed delivery securities will not exceed 25% of the value of its total assets absent unusual market conditions. The Fund does not intend to purchase when-issued or delayed delivery securities for speculative purposes but only in furtherance of its investment objective. When the Fund purchases securities on a when-issued or delayed delivery basis, it will set aside securities or cash with its custodian equal to the payment that will be due.

Tender Option Bonds. The Fund may purchase tender option bonds. A tender

option bond is a municipal obligation (generally held pursuant to a custodial arrangement) having a maturity longer than 13 months and bearing interest at a fixed rate substantially higher than prevailing short-term tax-exempt rates, that has been coupled with the agreement of a third party, such as a bank, broker-dealer or other financial institution, pursuant to which such institution grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the municipal obligation's fixed coupon rate and the rate, as determined by remarketing or similar agent at or near the commencement of such period, that would cause the securities coupled with the tender option, to trade at or near par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-end tax exempt rate. LBGAM will consider on an ongoing basis the creditworthiness of the issuer of the underlying municipal obligation, of any custodian and of the third party provider of the tender option. In certain instances and for certain tender option bonds, the option may be terminable in the event of a default in payment of principal or interest on the underlying municipal obligation and for other reasons.

Municipal Lease Obligations. The Fund may invest in municipal obligations that constitute participations in a lease obligation or installment purchase contract obligation (hereafter collectively called "municipal lease obligations") of a municipal authority or entity. Although municipal lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a municipal lease obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain municipal lease obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although non-appropriation municipal lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. The Fund will seek to minimize the special risks associated with such securities by not investing more than 10% of its assets in municipal lease obligations that contain non-appropriation clauses, and by only investing in those non-appropriation leases where (a) the nature of the leased equipment or property is such that its ownership or use is essential to a governmental function of the municipality, (b) appropriate covenants will be obtained from the municipal obligor prohibiting the substitution or purchase of similar equipment if lease payments are not appropriated, (c) the lease obligor has maintained good market acceptability in the past, (d) the investment is of a size that will be attractive to institutional investors, and (e) the underlying leased equipment has elements of portability and/or use that enhance its marketability in the event foreclosure on the underlying equipment were ever required. Municipal lease obligations provide a premium interest rate which along with regular amortization of the principal may make them attractive for a portion of the assets of the Fund.

Custodial Receipts and Certificates. The Fund may acquire custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both, on certain municipal obligations. The underwriter of these certificates or receipts typically purchases municipal obligations and deposits the obligations in an irrevocable trust or custodial account with a custodian bank, which then issues receipts or certificates that evidence ownership of the periodic unmatured coupon payments and the final principal payment on the obligations. Although under the terms of a custodial receipt, the Fund typically would be authorized to assert its rights directly against the issuer of the underlying obligation, the Fund could be required to assert through the custodian bank those rights as may exist against the underlying issuer. Thus, in the event the underlying issuer fails to pay principal and/or interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation of the issuer. In addition, in the event that the trust or custodial account in

which the underlying security has been deposited is determined to be an association taxable as a corporation instead of a non-taxable entity, the yield on the underlying security would be reduced in recognition of any taxes paid.

Participation Interests. The Fund may purchase participation certificates issued by a bank, insurance company or other financial institution in obligations owned by such institutions or affiliated organizations that may otherwise be purchased by the Fund, and loan participation certificates. A participation certificate gives the Fund an undivided interest in the underlying obligations in the proportion that the Fund's interest bears to the total principal amount of such obligations. Certain of such participation certificates may carry a demand feature that would permit the holder to tender them back to the issuer or to a third party prior to maturity. See "Floating and Variable Rate Notes" for additional information with respect to demand instruments that may be purchased by the Fund. The Fund may invest in participation certificates even if the underlying obligations carry stated maturities in excess of thirteen months, upon compliance with certain conditions contained in Rule 2a-7. Loan participation certificates are considered by the Fund to be "illiquid" for purposes of its investment policies with respect to illiquid securities as set forth under Illiquid Securities below.

Illiquid Securities. The Fund will not knowingly invest more than 10% of the value of its total assets in illiquid securities, including time deposits and repurchase agreements having maturities longer than seven days. Securities that have readily available market quotations are not deemed illiquid for purposes of this limitation (irrespective of any legal or contractual restrictions on resale). The Fund may invest in commercial obligations issued in reliance on the so-called "private placement exemption" from registration afforded by Section 4(2) of the Securities Act of 1933, as amended ("Section 4(2) paper"). The Fund may also purchase securities that are not registered under the Securities Act of 1933, as amended, but which can be sold to qualified institutional buyers in accordance with Rule 144A under that Act ("Rule 144A securities"). Section 4(2) paper is restricted as to disposition under the federal securities laws, and generally is sold to institutional investors such as the Fund who agree that they are purchasing the paper for investment and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) paper normally is resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers who make a market in the Section 4(2) paper, thus providing liquidity. Rule 144A securities generally must be sold to other qualified institutional buyers. If a particular investment in Section 4(2) paper or Rule 144A securities is not determined to be liquid, that investment will be included within the 10% limitation on investment in illiquid securities. The Fund's LBGAM will monitor the liquidity of such restricted securities under the supervision of the Board of Directors. See "Investment Objective and Policies - Additional Information on Portfolio Instruments and Investment Practices - Illiquid and Restricted Securities" in the Statement of Additional Information.

Repurchase Agreements. The Fund may purchase instruments from financial institutions, such as banks and broker-dealers, subject to the seller's agreement to repurchase them at an agreed upon time and price ("repurchase agreements"). The seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement at not less than the repurchase price. Default by the seller would, however, expose the Fund to possible loss because of adverse market action or delay in connection with the disposition of the underlying obligations.

Other Money Market Funds. The Fund may invest up to 10% of the value of its total assets in shares of other money market funds. The Fund will invest in other money market funds only if such funds are subject to the requirements of Rule 2a-7 and are considered to present minimal credit risks. The Fund's Investment Adviser will monitor the policies and investments of other money market funds in which it invests, based on information furnished to shareholders of those funds, with respect to their compliance with their

investment objectives and Rule 2a-7.

Stand-by Commitments. The Fund may enter into put transactions, including transactions sometimes referred to as stand-by commitments, with respect to securities held in its portfolio. In a put transaction, the Fund acquires the right to sell a security at an agreed upon price within a specified period prior to its maturity date, and a stand-by commitment entitles the Fund to same-day settlement and to receive an exercise price equal to the amortized cost of the underlying security plus accrued interest, if any, at the time of exercise. In the event that the party obligated to purchase the underlying security from the Fund defaults on its obligation to purchase the underlying security, then the Fund might be unable to recover all or a portion of any loss sustained from having to sell the security elsewhere. Acquisition of puts will have the effect of increasing the cost of securities subject to the put and thereby reducing the yields otherwise available from such securities.

Borrowing. The Fund may borrow only from banks or, subject to obtaining exemptive relief from the SEC, from other funds advised by Lehman Brothers or its affiliates (as described below under "Interfund Lending Program"), or by entering into reverse repurchase agreements, in aggregate amounts not to exceed 33-1/3% of its total assets (including the amount borrowed) less its liabilities (excluding the amount borrowed), and only for temporary or emergency purposes. Bank borrowings may be from U.S. or foreign banks and may be secured or unsecured. The Fund may also borrow by entering into reverse repurchase agreements, pursuant to which it would sell portfolio securities to financial institutions, such as banks and broker-dealers, and agree to repurchase them at an agreed upon date and price. The Fund would also consider entering into reverse repurchase agreements to avoid otherwise selling securities during unfavorable market conditions to meet redemptions. Reverse repurchase agreements involve the risk that the market value of the portfolio securities sold by the Fund may decline below the price of the securities the Fund is obligated to repurchase.

Loans of Portfolio Securities. The Fund may lend its portfolio securities consistent with its investment policies. The Fund may lend portfolio securities against collateral, consisting of cash or securities which are consistent with its permitted investments, which is equal at all times to at least 100% of the value of the securities loaned. There is no limitation on the amount of securities that may be loaned. Such loans would involve risks of delay in receiving additional collateral or in recovering the securities loaned or even loss of rights in the collateral should the borrower of the securities fail financially. However, loans will be made only to borrowers deemed by the Fund's investment adviser to be of good standing and only when, in the judgment of the Fund's investment adviser, the income to be earned from the loans justifies the attendant risks.

Interfund Lending Program. Subject to obtaining exemptive relief from the SEC, the Fund may lend money to and, in the circumstances described under "Borrowing" above, borrow money from, other funds advised by Lehman Brothers or its affiliates. The Fund will only borrow through the program when costs are equal to or lower than the costs for bank loans. The Fund anticipates that an exemptive order permitting interfund loans, if obtained from the SEC, will impose various conditions on the Fund, including limitations on the duration of interfund loans and on the percentage of the Fund's assets that may be loaned or borrowed through the program. Loans may be called on one day's notice and the Fund may have to borrow from a bank at a higher rate if an interfund loan is called or not renewed. Any delay in repayment to a lending fund could result in a lost investment opportunity or additional borrowing costs.

Risk Factors and Special Considerations

Because the Fund will invest primarily in obligations issued by the State of New York and its cities, municipalities and other public authorities, it is more susceptible to factors adversely affecting issuers of such obligations than a comparable municipal bond fund that is not so concentrated. New York State, New York City and other debt-issuing entities located in New York State

have, at various times in the past, encountered financial difficulties. A continuation or recurrence of the financial difficulties previously experienced by the issuers of New York Municipal Obligations could result in defaults or declines in the market values of those issuers' existing obligations and, possibly, in the obligations of other issuers of New York Municipal Obligations. If either New York State or any of its local governmental entities is unable to meet its financial obligations, the income derived by the Fund and its ability to preserve capital and liquidity could be adversely affected. See "Special Factors Affecting the Fund's Investment in New York Municipal Obligations" in the Statement of Additional Information for further information.

The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means that there are no limitations on the percentage of the Fund's assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest a greater proportion of its assets in the obligations of a small number of issuers and, as a result, may be subject to greater risk with respect to portfolio securities. The Fund intends to comply, however, with the diversification requirements imposed on regulated investment companies by the Code, which generally means that with respect to 50% of the Fund's portfolio, no more than 5% of the Fund's assets will be invested in any one issuer and with respect to the other 50% of the Fund's portfolio, not more than 25% of the Fund's assets will be invested in any one issuer. See the Statement of Additional Information under "Additional Information Concerning Taxes."

Purchase of Shares

Purchases of the Global Clearing Shares may only be made through certain brokers that clear transactions through Lehman Brothers on a fully disclosed basis (an "Introducing Broker"). The Fund reserves the right to reject any purchase order and to suspend the offering of shares for a period of time.

The minimum initial investment in the Global Clearing Shares of the Fund is \$5,000 and the minimum subsequent investment is \$1,000. In addition, for participants with an automatic purchase arrangement in connection with their brokerage accounts, there is no minimum initial or subsequent investment. There are no minimum investment requirements for employees of Lehman Brothers and its affiliates. The Fund reserves the right at any time to vary the initial and subsequent investment minimums. No certificates are issued for Fund shares.

The Fund's shares are sold continuously at their net asset value next determined after a purchase order is received and becomes effective. A purchase order for Global Clearing Shares becomes effective on the day the Fund receives sufficient federal funds to cover the purchase price and will be priced at the net asset value next determined after the Fund's Transfer Agent receives such federal funds. See "Valuation of Shares." Investors should note that there may be a delay between the time when an Introducing Broker receives purchase proceeds and the time when those proceeds are transmitted to the Fund and that the Introducing Broker may benefit from the use of temporarily uninvested funds. Shares will begin to accrue income dividends on the day the purchase order becomes effective.

Redemption of Shares

Holders of Global Clearing Shares may redeem their shares without charge on any day on which the Fund calculates its net asset value. Redemption requests received in proper form prior to noon, Eastern time, on any day the Fund calculates its net asset value will be priced at the net asset value per share determined at noon on that day and redemption requests received after such

time will be priced at the net asset value next determined. The Fund will normally transmit redemption proceeds on Global Clearing Shares for credit to the shareholder's account at Lehman Brothers or the Introducing Broker at no charge on the day of receipt of the redemption request.

A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected, which may take up to 15 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds by bank wire or with a certified or cashier's check.

Shareholders who purchase securities through Lehman Brothers or the Introducing Broker may take advantage of special redemption procedures under which Fund shares will be redeemed automatically to the extent necessary to satisfy debit balances arising in the shareholder's account with Lehman Brothers or the Introducing Broker. One example of how an automatic redemption may occur involves the purchase of securities. If a shareholder purchases securities but does not pay for them by the settlement date, the number of Shares necessary to cover the debit will be redeemed automatically as of the settlement date, which currently occurs five business days after the trade date but which will, effective June 7, 1995, occur three days after the trade date. Shareholders not wishing to participate in these arrangements should notify their Lehman Brothers Investment Representative.

A Fund account that is reduced by a shareholder to a value of \$1,000 or less may be subject to redemption by the Fund, but only after the shareholder has been given at least 30 days in which to increase the account balance to more than \$1,000. In addition, the Fund may redeem shares involuntarily or suspend the right of redemption as permitted under the 1940 Act, as described in the Statement of Additional Information under "Additional Purchase and Redemption Information."

Requests for the redemption of Global Clearing Shares must be made through an Introducing Broker. Shares held by an Introducing Broker on behalf of investors must be redeemed by submitting a written request for redemption to the Fund's Transfer Agent:

Lehman Brothers Funds, Inc.
c/o The Shareholder Services Group, Inc.
P.O. Box 9184
Boston, Massachusetts 02009-9184

A written redemption request to the Fund's transfer agent must (a) state the class and number of shares to be redeemed, (b) indicate the name of the Fund from which such shares are to be redeemed, (c) identify the shareholder's account number and (d) be signed by each registered owner exactly as the shares are registered. Any signature appearing on a redemption request must be guaranteed by a domestic bank, a savings and loan institution, a domestic credit union, a member bank of the Federal Reserve System or a member firm of a national securities exchange. The Fund's transfer agent may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees and guardians. A redemption request will not be deemed to be properly received until the Fund's transfer agent receives all required documents in proper form.

Exchange Privilege

Shares of the Fund may be exchanged without charge for shares of the same class of certain other funds in the Lehman Brothers Group of Funds. In exchanging shares, a shareholder must meet the minimum initial investment requirement of the fund into which the exchange is being made and the shares involved must be legally available for sale in the state where the shareholder resides.

Orders for exchanges will only be accepted on days on which both funds involved determine their respective net asset values. To obtain information regarding the availability of funds into which shares of the Fund may be exchanged, investors should contact a Lehman Brothers Investment Representative.

Tax Effect. The exchange of shares of one fund for shares of another fund is treated for federal income tax purposes as a sale of the shares given in exchange by the shareholder. Therefore, an exchanging shareholder may realize a taxable gain or loss in connection with an exchange.

Additional Information Regarding the Exchange Privilege. Shareholders exercising the exchange privilege with any of the other funds in the Lehman Brothers Group of Funds should review the prospectus of that fund carefully prior to making an exchange. Lehman Brothers reserves the right to reject any exchange request. The exchange privilege may be modified or terminated at any time after notice to shareholders. For further information regarding the exchange privilege or to obtain the current prospectuses for members of the Lehman Brothers Group of Funds, investors should contact a Lehman Brothers Investment Representative.

Valuation of Shares

The net asset value per Global Clearing Share is calculated on each day, Monday through Friday, except on days on which the New York Stock Exchange or the Federal Reserve Bank of Boston is closed. Currently one or both of these institutions are scheduled to be closed on the customary national business holidays of New Year's Day, Martin Luther King, Jr.'s Birthday (observed), Presidents' Day (observed), Good Friday, Memorial Day (observed), Independence Day, Labor Day, Columbus Day (observed), Veterans Day, Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively. The net asset value per Global Clearing Share is calculated at noon, Eastern time, on each day on which the Fund computes its net asset value. The net asset value per Global Clearing Share is computed by dividing the value of the net assets of the Fund attributable to the Global Clearing Shares by the total number of such shares outstanding. The Fund's assets are valued on the basis of amortized cost, which involves valuing a portfolio instrument at its cost and, thereafter, assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. The Fund seeks to maintain a constant net asset value of \$1.00 per share, although there can be no assurance that it can do so on a continuing basis. Further information regarding the Fund's valuation policies is contained in the Statement of Additional Information.

Management of the Fund

The business and affairs of the Fund are managed under the direction of the Company's Board of Directors. The Board of Directors approves all significant agreements between the Company and the persons or companies that furnish services to the Fund, including agreements with its Distributor, Investment Adviser, Administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to its Investment Adviser and Administrator. One of the directors and all of the Company's officers are affiliated with Lehman Brothers, The Shareholder Services Group, Inc. or one of their affiliates. The Statement of Additional Information relating to the Fund contains general background information regarding each director and executive officer of the Company.

INVESTMENT ADVISER - LEHMAN BROTHERS GLOBAL ASSET MANAGEMENT INC.

Lehman Brothers Global Asset Management Inc. ("LBGAM") serves as the Investment Adviser to the Fund. LBGAM, together with other Lehman Brothers

investment advisory affiliates, had approximately \$10 billion in assets under management as of December 31, 1994. Subject to the supervision and direction of the Company's Board of Directors, LBGAM manages the Fund's portfolio in accordance with the Fund's investment objective and policies, makes investment decisions for the Fund and places orders to purchase and sell securities. As compensation for the services of LBGAM as Investment Adviser to the Fund, LBGAM is entitled to receive a monthly fee from the Fund at the annual rate of 0.30% of the value of the Fund's average daily net assets.

LBGAM is located at 3 World Financial Center, New York, New York 10285. LBGAM is a wholly-owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings").

ADMINISTRATOR AND TRANSFER AGENT - THE SHAREHOLDER SERVICES GROUP, INC.

The Shareholder Services Group, Inc. ("TSSG"), located at 53 State Street, Boston, Massachusetts 02109, serves as the Fund's Administrator and transfer agent. TSSG is a wholly-owned subsidiary of First Data Corporation. As Administrator, TSSG calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. As compensation for TSSG's services as Administrator, TSSG is entitled to receive a monthly fee from the Fund at the annual rate of 0.20% of the value of the Fund's average daily net assets. TSSG is also entitled to a monthly fee from the Fund for its services as transfer agent.

On May 6, 1994, TSSG acquired the third party mutual fund administration business of The Boston Company Advisors, Inc., an indirect wholly-owned subsidiary of Mellon Bank Corporation ("Mellon"). In connection with this transaction, Mellon assigned to TSSG its agreement with Lehman Brothers that Lehman Brothers and its affiliates, consistent with their fiduciary duties and assuming certain service quality standards are met, would recommend TSSG as the provider of administration services to the Fund. This duty to recommend expires on May 21, 2000. In addition, under the terms of the Stock Purchase Agreement dated September 14, 1992 between Mellon and Lehman Brothers (then named Shearson Lehman Brothers Inc.). Lehman Brothers agreed to recommend Boston Safe Deposit and Trust Company ("Boston Safe"), an indirect wholly-owned subsidiary of Mellon, as custodian of mutual funds affiliated with Lehman Brothers until May 21, 2000 to the extent consistent with its fiduciary duties and other applicable law.

DISTRIBUTOR AND PLAN OF DISTRIBUTION

Lehman Brothers, located at 3 World Financial Center, New York, New York 10285, is the Distributor of the Fund's shares. Lehman Brothers, a leading full service investment firm, meets the diverse financial needs of individuals, institutions and governments around the world.

The Company has adopted a plan of distribution with respect to each class of the Fund (the "Plan of Distribution") pursuant to Rule 12b-1 under the 1940 Act. Under the Plan of Distribution, the Fund has agreed with respect to the Global Clearing Shares to pay Lehman Brothers monthly for advertising, marketing and distributing its shares at an annual rate of 0.50% of its average daily net assets. Under the Plan of Distribution, Lehman Brothers may retain all or a portion of the payments made to it pursuant to the Plan and may make payments to its Investment Representatives or Introducing Brokers that engage in the sale of such classes of Fund shares. The Plan of Distribution also provides that Lehman Brothers may make payments to assist in the distribution of each class of the Fund's shares out of the other fees received by it or its affiliates from the Fund, its past profits or any other sources available to it. From time to time, Lehman Brothers may waive receipt of fees under the Plan of Distribution while retaining the ability to be paid under such Plan thereafter. The fees payable to Lehman Brothers under the Plan of Distribution for advertising, marketing and distributing such shares of the Fund and payments by Lehman Brothers to its Investment Representatives or Introducing Brokers are payable without regard to actual expenses incurred. Lehman Brothers Investment Representatives and any other person entitled to receive compensation for selling shares of the Fund may receive different levels of compensation for selling one particular class of shares over another

in the Fund.

CUSTODIAN - BOSTON SAFE DEPOSIT AND TRUST COMPANY

Boston Safe, an indirect wholly-owned subsidiary of Mellon, is located at One Boston Place, Boston, Massachusetts 02108 and serves as the Fund's Custodian.

EXPENSES

The Fund's expenses include taxes, interest, fees and salaries of the directors and officers who are not directors, officers or employees of the Fund's service contractors, SEC fees, state securities qualification fees, costs of preparing and printing prospectuses for regulatory purposes and for distribution to existing shareholders, advisory and administration fees, charges of the custodian, transfer agent and dividend disbursing agent, certain insurance premiums, outside auditing and legal expenses, costs of shareholder reports and shareholder meetings and any extraordinary expenses. The Fund also pays for brokerage fees and commissions (if any) in connection with the purchase and sale of portfolio securities. Fund expenses are allocated to a particular class based on either expenses identifiable to the class or relative net assets of the class and the other classes of Fund shares. LBGAM and TSSG have agreed to reimburse the Fund to the extent required by applicable state law for certain expenses that are described in the Statement of Additional Information relating to the Fund.

Dividends

The Fund declares dividends from its net investment income (i.e., income other than net realized long- and short-term capital gains) on each day the Fund is open for business and pays dividends monthly. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the close of the Fund's fiscal year in which they have been earned. Unless a shareholder instructs the Fund to pay dividends or capital gains distributions in cash and credit them to the shareholder's account at Lehman Brothers, dividends and distributions from the Fund will be reinvested automatically in additional shares of the same class of the Fund at net asset value. Shares redeemed during a month will be entitled to dividends up to, but not including, the date of redemption, and purchased shares will be entitled to dividends and distributions declared on the day the purchase order becomes effective. The Fund does not expect to realize net long-term capital gains.

Taxes

The Fund will be treated as a separate entity for federal income tax purposes, and thus the provisions of the Code applicable to regulated investment companies generally will be applied to each series of the Company separately, rather than to the Company as a whole. In addition, net realized long-term capital gains, net investment income and operating expenses will be determined separately for each series of the Company. The Fund intends to qualify each year as a "regulated investment company" under the Code. A regulated investment company is exempt from federal income tax on amounts distributed to its shareholders.

Qualification as a regulated investment company under the Code for a taxable year requires, among other things, that the Fund distribute to its shareholders each taxable year (a) at least 90% of its investment company taxable income for such year and (b) at least 90% of the excess of its tax-exempt interest income over certain deductions disallowed with respect to such income. In general, the Fund's investment company taxable income will be its taxable income (including dividends and short-term capital gains, if any) subject to certain adjustments and excluding the excess of any net long-term capital gain for the taxable year over the net short-term capital loss, if

any, for such year. The Fund intends to distribute substantially all of its investment company taxable income each year. Such distributions will be taxable as ordinary income to Fund shareholders who are not currently exempt from federal income taxes, whether such income is received in cash or reinvested in additional shares. (Federal income taxes for distributions to an IRA or a qualified retirement plan are deferred under the Code.) It is not anticipated that a significant portion of the Fund's distributions will be eligible for the dividends received deduction for corporations. The Fund does not expect to realize long-term capital gains and, therefore, does not contemplate payment of any "capital gain dividends" as described in the Code.

The Fund may hold without limit certain private activity bonds issued after August 7, 1986. Shareholders must include, as an item of tax preference, the portion of dividends paid by the Fund that is attributable to interest on such bonds in their federal alternative minimum taxable income for purposes of determining liability (if any) for the 26% or 28% alternative minimum tax applicable to individuals and the 20% alternative minimum tax and the environmental tax applicable to corporations. Corporate shareholders must also take all exempt-interest dividends into account in determining certain adjustments for federal alternative minimum tax and environmental tax purposes. The environmental tax applicable to corporations is imposed at the rate of .12% on the excess of the corporation's modified federal alternative minimum taxable income over \$2,000,000. Shareholders receiving Social Security benefits should note that all exempt-interest dividends will be taken into account in determining the taxability of such benefits.

Dividends and distributions by the Fund are generally taxable to the shareholders at the time the dividend or distribution is made. Dividends declared in October, November or December of any year payable to shareholders of record on a specified date in such months will be deemed to have been received by the shareholders and paid by the Fund on December 31 of such year in the event such dividends are actually paid during January of the following year.

Dividends paid by the Fund which are derived from exempt-interest income may be treated by the Fund's shareholders as items of interest excludable from their gross income under Section 103(a) of the Code, unless under the circumstances applicable to the particular shareholder the exclusion would be disallowed. (See the Statement of Additional Information under "Additional Information Concerning Taxes.")

To the extent, if any, dividends paid to shareholders by the Fund are derived from taxable income or from long-term or short-term capital gains, such dividends will not be exempt from federal income tax, whether such dividends are paid in the form of cash or additional shares, and may also be subject to state and local taxes. Under state or local law, the Fund's distributions of net investment income may be taxable to investors as dividend income though a substantial portion of such distributions may be derived from interest on tax-exempt obligations which, if realized directly, would be exempt from such income taxes.

The Fund may be required to withhold federal income tax at a rate of 31% ("backup withholding) from dividends and redemption proceeds paid to non-corporate shareholders. This tax may be withheld from dividends if (i) the shareholder fails to furnish the Fund with the shareholder's correct taxpayer identification number, (ii) the Internal Revenue Service ("IRS") notifies the Fund that the shareholder has failed to report properly certain interest and dividend income to the IRS and to respond to notices to that effect, or (iii) when required to do so, the shareholder fails to certify that he or she is not subject to backup withholding.

New York State and Local Tax Matters

Exempt-interest dividends paid to shareholders of the Fund will not be subject to New York State and New York City personal income taxes to the extent they represent interest income directly attributable to federally tax exempt obligations of the State of New York and its political subdivisions and

instrumentalities (as well as certain other federally tax exempt obligations the interest on which is exempt from New York State and New York City personal income taxes.) The Fund intends that substantially all of the dividends it designates as exempt-interest dividends will also be exempt from New York State and New York City personal income taxes. Exempt-interest dividends paid by the Fund, however, may be taxable to shareholders who are subject to taxation outside New York State and New York City.

Corporate shareholders subject to New York City franchise tax or New York City general corporation tax will be required to include all dividends received from the Fund (including exempt-interest dividends) as net income subject to such taxes. Furthermore, for purposes of calculating a corporate shareholder's liability for such taxes under the alternative tax base measured by business and investment capital, such shareholder's shares of the Fund will be included in computing such shareholder's investment capital.

Shareholders will not be subject to the New York City unincorporated business tax solely by reason of their ownership of shares in the Fund. If a shareholder is subject to the New York City unincorporated business tax, income and gains derived from the Fund will be subject to such tax, except for exempt-interest dividend income that is directly related to interest on New York municipal obligations. Shares of the Fund will be exempt from local property taxes in New York State and New York City.

A notice detailing the federal and New York tax status of dividends and distributions paid by the Fund will be mailed annually to the Fund's shareholder.

The foregoing discussion is only a brief summary of some of the important federal tax considerations generally affecting the Fund and its shareholders. As noted above, IRAs receive special tax treatment. No attempt is made to present a detailed explanation of the federal, state or local income tax treatment of the Fund or its shareholders, and this discussion is not intended as a substitute for careful tax planning. Accordingly, potential investors in the Fund should consult their tax advisers with specific reference to their own tax situation.

Yields

From time to time, the "yields," "effective yields" and "tax-equivalent yields" for Global Clearing Shares of the Fund may be quoted in advertisements or in reports to shareholders. Yield quotations are computed separately for each class of shares of the Fund. The "yield" quoted in advertisements for Global Clearing Shares of the Fund refers to the income generated by an investment in such shares over a specified period (such as a seven-day period) identified in the advertisement. This income is then "annualized"; that is, the amount of income generated by the investment during that period is assumed to be generated each such period over a 52-week or one-year period and is shown as a percentage of the investment. The "effective yield" is calculated similarly but, when annualized, the income earned by an investment in Global Clearing Shares is assumed to be reinvested. The "effective yield" will be slightly higher than the "yield" because of the compounding effect of this assumed reinvestment. The "tax-equivalent yield" demonstrates the level of taxable yield necessary to produce an after tax yield equivalent to the Fund's tax-free yield. It is calculated by increasing the yield (calculated as above) by the amount necessary to reflect the payment of federal taxes at a stated rate. The "tax-equivalent yield" will always be higher than the "yield."

The Fund's yields may be compared to those of other mutual funds with similar objectives, to bond or other relevant indices, or to rankings prepared by independent services or other financial or industry publications that monitor the performance of mutual funds, or to the average yields reported by the Bank Rate Monitor from money market deposit accounts offered by the 50 leading

banks and thrift institutions in the top five standard metropolitan statistical areas. For example, such data are reported in national financial publications such as IBC/Donoghue's Money Fund Report, Ibbotson Associates of Chicago, The Wall Street Journal and The New York Times, reports prepared by Lipper Analytical Service, Inc. and publications of a local or regional nature.

The Fund's yield figures represent past performance, will fluctuate and should not be considered as representative of future results. The yield of any investment is generally a function of portfolio quality and maturity, type of investment and operating expenses. The methods used to compute the yields on each class of the Fund's shares are described in more detail in the Statement of Additional Information. Investors may call 800-861-4171 to obtain current yield information.

Additional Information

The Company was incorporated under the laws of the State of Maryland on May 5, 1993. The authorized capital stock of the Company consists of 10,000,000,000 shares having a par value of \$.001 per share. The Company's Charter currently authorizes the issuance of several series of shares, corresponding to shares of the Fund as well as shares of the other investment portfolios of the Company. The Company's Board of Directors may, in the future, authorize the issuance of additional series of capital stock representing shares of additional investment portfolios or additional classes of shares of the Fund or the Company's other investment portfolios.

The Company has received an order from the SEC permitting it, subject to certain terms and conditions, to establish multiple classes of shares within each series. The Board of Directors of the Company has authorized the establishment of two classes of shares in the Fund: "Select Shares" and "Global Clearing Shares". This Prospectus relates only to Global Clearing Shares of the Fund. The shares of each class of the Fund represent interests in the Fund in proportion to their relative net asset values.

The Select Shares offered by the Fund are subject to a distribution fee payable under the Plan of Distribution at the annual rate of 0.25% of the Fund's average daily net assets attributable to that class. Select Shares are available both through certain Introducing Brokers and Lehman Brothers and are exchangeable only for Select Shares of certain other funds in the Lehman Brothers Group of Funds. Certain Fund expenses, such as transfer agency expenses, are allocated separately to each class of the Fund's shares based on expenses identifiable by class. An Investment Representative may receive different levels of compensation for selling different classes of shares.

All shares of the Company have equal voting rights and will be voted in the aggregate, and not by series or class, except where voting by series or class is required by law or where the matter involved affects only one series or class. Under the corporate law of Maryland, the Company's state of incorporation, and the Company's By-Laws (except as required under the 1940 Act), the Company is not required and does not currently intend to hold annual meetings of shareholders for the election of directors. Shareholders, however, do have the right to call for a meeting to consider the removal of one or more of the Company's directors if such a request is made, in writing, by the holders of at least 10% of the Company's outstanding voting securities.

All shares of the Company, when issued, will be fully paid and nonassessable.

The Fund sends shareholders a semi-annual and audited annual report, which includes listings of investment securities held by the Fund at the end of the period covered. In an effort to reduce the Fund's printing and mailing costs, the Fund may consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record would receive a single copy of each report. In addition, the Fund may consolidate the mailing of its Prospectus so

that a shareholder having multiple accounts would receive a single Prospectus annually. When the Fund's annual report is combined with the Prospectus into a single document, the Fund will mail the combined document to each shareholder to comply with legal requirements. Any shareholder who does not want this consolidation to apply to his or her account should contact his or her Lehman Brothers Investment Representative or the Fund's transfer agent. Shareholders may direct inquiries regarding the Fund to their Lehman Brothers Investment Representatives.

LEHMAN BROTHERS

Member SIPC

3 WORLD FINANCIAL CENTER, NEW YORK, NEW YORK 10285

Part B

STATEMENT OF ADDITIONAL INFORMATION

Information contained herein is subject to completion or amendment.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Statement of Additional Information shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these

securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion - Dated February 22, 1995

Lehman Brothers New York Municipal Money Market Fund

An Investment Portfolio of Lehman Brothers Funds, Inc.

Statement of Additional Information

_____, 1995

This Statement of Additional Information is meant to be read in conjunction with the Prospectuses for Lehman Brothers New York Municipal Money Market Fund (the "Fund"), dated _____, 1995, as amended or supplemented from time to time, and is incorporated by reference in its entirety into the Prospectuses. The Fund is a separate, non-diversified money market portfolio of Lehman Brothers Funds, Inc. (the "Company"), an open-end, management investment company. Because this Statement of Additional Information is not itself a prospectus, no investment in shares of the Fund should be made solely upon the information contained herein. Copies of the Prospectuses may be obtained by calling Lehman Brothers Inc. at 1-800-861-4171. Capitalized terms used but not defined herein have the same meanings as in the Prospectuses.

TABLE OF CONTENTS

<TABLE>

	Page
<S>	<C>
Investment Objective and Policies	2
Additional Information Concerning Municipal Obligations	8
Special Factors Affecting the Fund's Investments in New York Municipal Obligations	10
Additional Purchase and Redemption Information	29
Exchange Privilege	30
Management of the Fund	31
Additional Information Concerning Taxes	36
Dividends	38
Additional Yield Information	38
Additional Description Concerning Fund Shares	39
Counsel	40
Auditors	40
Appendix	A-1

</TABLE>

INVESTMENT OBJECTIVE AND POLICIES

As stated in the Fund's Prospectuses, the investment objective of the Fund is to provide as high a level of current income exempt from federal income tax and from New York State and New York City personal income taxes, as is consistent with stability of principal. The following policies supplement the description of the Fund's investment objective and policies in the Prospectuses.

The Fund is managed to provide stability of capital while achieving competitive yields. The Investment Adviser intends to follow a value-oriented, research-driven and risk-averse investment strategy, engaging in a full range of economic, strategic, credit and market-specific analyses in researching potential investment opportunities.

Portfolio Transactions

Subject to the general control of the Company's Board of Directors, Lehman Brothers Global Asset Management Inc. ("LBGAM"), the Fund's Investment Adviser, is responsible for, makes decisions with respect to and places orders for all purchases and sales of portfolio securities. LBGAM generally purchases portfolio securities for the Fund either directly from the issuer or from dealers who specialize in money market instruments. Purchases are usually principal transactions without brokerage commissions. In making portfolio investments, LBGAM seeks to obtain the best net price and the most favorable execution of orders. To the extent that the execution and price offered by more than one dealer are comparable, LBGAM may, in its discretion, effect transactions in portfolio securities with dealers who provide the Company with research advice or other services. Research advice and other services furnished by brokers through whom the Fund effects securities transactions may be used by LBGAM in servicing accounts in addition to the Fund, and not all such services will necessarily benefit the Fund.

Transactions in the over-the-counter market are generally principal transactions with dealers, and the costs of such transactions involve dealer spreads rather than brokerage commissions. With respect to over-the-counter transactions, the Fund, where possible, will deal directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere.

Investment decisions for the Fund are made independently from those for the Company's other portfolios or other investment company portfolios or accounts advised by LBGAM. Such other investment company portfolios may invest in the same securities as the Fund. When purchases or sales of the same security are made at substantially the same time on behalf of such other investment company portfolios, transactions are averaged as to price, and available investments allocated as to amount, in a manner which LBGAM believes to be equitable to each investment company portfolio, including the Fund. In some instances, this investment procedure may adversely affect the price paid or received by the Fund or the size of the position obtained for the Fund. To the extent permitted by law, LBGAM may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for such other investment companies in order to obtain best execution.

The Fund will not execute portfolio transactions through, acquire portfolio securities issued by, make savings deposits in, or enter into repurchase agreements with Lehman Brothers Inc. ("Lehman Brothers"), LBGAM or any affiliated person (as such term is defined in the Investment Company Act of 1940, as amended (the "1940 Act")) of either of them, except to the extent permitted by the Securities and Exchange Commission (the "SEC"). However, pursuant to an exemption granted by the SEC, the Fund may engage in transactions involving certain money market instruments with Lehman Brothers and certain of its affiliates acting as principal. The Fund will not purchase securities during the existence of any underwriting or selling group relating thereto of which Lehman Brothers or any affiliate thereof is a member, except to the extent permitted by the SEC. Under certain circumstances, the Fund may be at a disadvantage because of these limitations in comparison with other investment company portfolios which have a similar investment objective but are not subject to such limitations.

The Fund may participate, if and when practicable, in bidding for the purchase of Municipal Obligations (as defined in the Prospectuses) directly from an issuer in order to take advantage of the lower purchase price available to members of such a group. The

Fund will engage in this practice, however, only when LBGAM, in its sole discretion, believes such practice to be otherwise in the Fund's interest.

The Fund does not intend to seek profits through short-term trading. The Fund's annual portfolio turnover will be relatively high because of the short-term nature of the instruments in which it invests, but the Fund's portfolio turnover is not expected to have a material effect on its net income. The Fund's portfolio turnover is expected to be zero for regulatory reporting purposes.

Additional Information on Portfolio Instruments and Investment Practices

U.S. Government Obligations. Examples of the types of U.S. government obligations that may be held by the Fund include, in addition to U.S. Treasury Bills, the obligations of the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association, Federal National Mortgage Association, Federal Financing Bank, General Services Administration, Student Loan Marketing Association, Central Bank for Cooperatives, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, Federal Farm Credit Banks, Maritime Administration, Resolution Trust Corporation, Tennessee Valley Authority, U.S. Postal Service and Washington D.C. Armory Board.

Bank Obligations. For purposes of the Fund's investment policies with respect to obligations of issuers in the banking industry, the assets of a bank or savings institution will be deemed to include the assets of its domestic and foreign branches. The Fund's investments in the obligations of foreign branches of U.S. banks and of foreign banks and other foreign issuers may subject the Fund to investment risks that are different in some respects from those of investment in obligations of U.S. domestic issuers. Such risks include future political and economic developments, the possible seizure or nationalization of foreign deposits, the possible adoption of foreign governmental restrictions which might adversely affect the payment of principal and interest on such obligations. In addition, foreign branches of U.S. banks and foreign banks may be subject to less stringent reserve requirements and foreign issuers generally are subject to different accounting, auditing, reporting and record keeping standards than those applicable to U.S. issuers. The Fund will acquire securities issued by foreign branches of U.S. banks or foreign issuers only when the Fund's investment adviser believes that the risks associated with such instruments are minimal.

Among the bank obligations in which the Fund may invest are notes issued by banks. These notes, which are exempt from registration under federal securities laws, are not deposits of the banks and are not insured by the Federal Deposit Insurance Corporation or any other insurer. Holders of notes rank on a par with other unsecured and unsubordinated creditors of the banks. Notes may be sold at par or sold on a discount basis and may bear fixed or floating rates of interest.

Variable and Floating Rate Instruments. Securities purchased by the Fund may include variable and floating rate instruments, which provide for adjustments in the interest rate on certain reset dates or whenever a specified interest rate index changes, respectively. Variable and floating rate instruments are subject to the credit quality standards described in the Prospectuses. In some cases the Fund may require that the obligation to pay the principal of the instrument be backed by a letter or line of credit or guarantee. Such instruments may carry stated maturities in excess of 397 days provided that the maturity-shortening provisions stated in Rule 2a-7

under the 1940 Act are satisfied. Although a particular variable or floating rate demand instrument may not be actively traded in a secondary market, in some cases, the Fund may be entitled to principal on demand and may be able to resell such notes in the dealer market. With respect to the floating and variable rate notes and demand notes described in the Prospectuses, LBGAM will consider the earning power, cash flows and other liquidity ratios of the issuers of such notes and will continuously monitor their financial ability to meet payment obligations when due.

Variable and floating rate demand instruments held by the Fund may have maturities of more than 13 months provided: (i) the Fund is entitled to the payment of principal at any time or during specified intervals not exceeding 13 months, subject to notice of no more than 30 days, and (ii) the rate of interest on such instruments is adjusted (based upon a pre-selected market sensitive index such as the prime rate of a major commercial bank) at periodic intervals not exceeding 13 months (397 days). In determining the Fund's average weighted portfolio maturity and whether a variable or floating rate demand instrument has a remaining maturity of 13 months or less, each instrument will be deemed by the Fund to have a maturity equal to the longer of the period remaining until its next interest rate adjustment or the period remaining until the principal amount can be measured through demand. In determining whether an unrated variable or floating rate demand instrument is of comparable quality at the time of purchase to instruments with minimal credit risk, LBGAM will follow guidelines adopted by the Company's Board of Directors.

Tender Option Bonds. The Fund may invest in tender option bonds. The Fund will not purchase tender option bonds unless (a) the demand feature applicable thereto is exercisable by the Fund within 13 months of the date of such purchase upon no more than 30 days' notice and thereafter is exercisable by the Fund no less frequently than annually upon no more than 30 days' notice and, (b) at the time of such purchase, LBGAM reasonably expects that (i) based upon its assessment of current and historical interest rate trends, prevailing short-term tax-exempt rates will not exceed the stated interest rate on the underlying securities at the time of the next tender fee adjustment, and (ii) the circumstances which might entitle the grantor of a tender option to terminate the tender option would not occur prior to the time of the next tender opportunity. At the time of each tender opportunity, the Fund will exercise the tender option with respect to any tender option bonds unless LBGAM reasonably expects that, (a) based upon its assessment of current and historical interest rate trends, prevailing short-term tax-exempt rates will not exceed the stated interest rate on the underlying securities at the time of the next tender fee adjustment, and (b) the circumstances which might entitle the grantor of a tender option to terminate the tender option would not occur prior to the time of the next tender opportunity. The Fund will exercise the tender feature with respect to tender option bonds, or otherwise dispose of its tender option bonds, prior to the time the tender option is scheduled to expire pursuant to the terms of the agreement under which the tender option is granted. The Fund otherwise will comply with the provisions of Rule 2a-7 under the 1940 Act in connection with the purchase of tender option bonds, including, without limitation, the requisite determination by the Board of Directors that the tender option bonds in question meet the quality standards described in Rule 2a-7. In the event of a default of the security underlying a tender option bond, or the termination of the tender option agreement, the Fund would look to the maturity date of the underlying security for purposes of compliance with Rule 2a-7 and, if its remaining maturity was greater than 13 months, the Fund would sell the security as soon as would be practicable. The Fund will purchase tender option bonds only when it is satisfied that (a) the custodial and tender option arrangements, including the fee payment arrangements, will not adversely affect the tax-exempt status of the underlying security and

(b) payment of any tender fees will not have the effect of creating taxable income for the Fund. Based on the tender option bond arrangement, the Fund expects to value the tender option bond at par; however, the value of the instrument will be monitored to assure that it is valued at fair value.

When-Issued and Delayed Delivery Securities. As stated in the Prospectuses, the Fund may purchase securities on a "when-issued" or delayed delivery basis (i.e., for delivery beyond the normal settlement date at a stated price and yield). When the Fund agrees to purchase when-issued or delayed delivery securities, its Custodian will set aside cash or liquid portfolio securities equal to the amount of the commitment in a separate account. Normally, the Custodian will set aside portfolio securities to satisfy a purchase commitment, and in such a case the Fund may be required subsequently to place additional assets in the separate account in order to ensure that the value of the account remains equal to the amount of the Fund's commitment. It may be expected that the Fund's net assets will fluctuate to a greater degree when it sets aside portfolio securities to cover such purchase commitments than when it sets aside cash. Because the Fund will set aside cash or liquid assets to satisfy its purchase commitments in the manner described, the Fund's liquidity and ability to manage its portfolio might be affected in the event its commitments to purchase when-issued or delayed delivery securities ever exceeded 25% of the value of its assets. When the Fund engages in when-issued or delayed delivery transactions, it relies on the seller to consummate the trade. Failure of the seller to do so may result in the Fund's incurring a loss or missing an opportunity to obtain a price considered to be advantageous. The Fund does not intend to purchase when-issued or delayed delivery securities for speculative purposes but only in furtherance of its investment objective. The Fund reserves the right to sell the securities before the settlement date if it is deemed advisable.

Stand-By Commitments. The Fund may acquire rights to "put" its securities at an agreed upon price within a specified period prior to their maturity date. The Fund may also enter into put transactions sometimes referred to as "stand-by commitments," which entitle the holder to same-day settlement and to receive an exercise price equal to the amortized cost of the underlying security plus accrued interest, if any, at the time of exercise. The Fund's right to exercise a stand-by commitment will be unconditional and unqualified.

The Fund expects that stand-by commitments will generally be available without the payment of any direct or indirect consideration. However, if necessary or advisable, the Fund may pay for certain stand-by commitments either separately in cash or by paying a higher price for portfolio securities which are acquired subject to a stand-by commitment (thus reducing the yield to maturity otherwise available for the same securities). The Fund intends to enter into stand-by commitments solely to facilitate portfolio liquidity and does not intend to exercise its rights thereunder for trading purposes. The acquisition of a stand-by commitment will not affect the valuation of the underlying security, which will continue to be valued in accordance with the amortized cost method. The actual stand-by commitment will be valued at zero in determining net asset value. Where the Fund pays any consideration directly or indirectly for a stand-by commitment, its cost will be reflected as unrealized depreciation for the period during which the stand-by commitment is held by the Fund and will be reflected in realized gain or loss when the stand-by commitment is exercised or expires.

In the event that the issuer of a stand-by commitment acquired by the Fund defaults on its obligation to purchase the underlying security, then the Fund might be unable to recover all or a portion of any loss sustained from having to sell the security elsewhere.

If the value of the underlying security increases, the potential for unrealized or realized gain is reduced by the cost of the stand-by commitment. The maturity of a portfolio security will not be considered shortened by a stand-by commitment to which such obligation is subject. Therefore, stand-by commitment transactions will not affect the average weighted maturity of the Fund's portfolio.

Illiquid Securities. The Fund may not invest more than 10% of its total net assets in illiquid securities, including securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale. Securities that have legal or contractual restrictions on resale but have a readily available market are not considered illiquid for purposes of this limitation.

The SEC has adopted Rule 144A under the Securities Act of 1933, as amended (the "1933 Act"), which allows for a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. Rule 144A establishes a "safe harbor" from the registration requirements of the 1933 Act for resales of certain securities to qualified institutional buyers. LBGAM anticipates that the market for certain restricted securities such as institutional municipal securities will expand further as a result of this regulation and the development of automated systems for the trading, clearance and settlement of unregistered securities of domestic and foreign issuers, such as the PORTAL system sponsored by the National Association of Securities Dealers, Inc.

LBGAM will monitor the liquidity of restricted securities under the supervision of the Board of Directors. In reaching liquidity decisions with respect to Rule 144A securities, LBGAM will consider, inter alia, the following factors: (1) the unregistered nature of a Rule 144A security; (2) the frequency of trades and quotes for a Rule 144A security; (3) the number of dealers willing to purchase or sell the Rule 144A security and the number of other potential purchasers; (4) dealer undertakings to make a market in the Rule 144A security; (5) the trading markets for the Rule 144A security; and (6) the nature of the Rule 144A security and the nature of marketplace trades (including, the time needed to dispose of the Rule 144A security, methods of soliciting offers and mechanics of transfer).

Repurchase Agreements. The repurchase price under the repurchase agreements described in the Prospectuses generally equals the price paid by the Fund plus interest negotiated on the basis of current short-term rates (which may be more or less than the rate on the securities underlying the repurchase agreement). Securities subject to repurchase agreements will be held by the Company's custodian, sub-custodian or in the Federal Reserve/Treasury book-entry system. Repurchase agreements are considered to be loans by the Fund under the 1940 Act.

Reverse Repurchase Agreements. Whenever the Fund enters into reverse repurchase agreements as described in the Prospectuses, they will place in a segregated custodian account liquid assets having a value equal to the repurchase price (including accrued interest) and will subsequently monitor the account to ensure such equivalent value is maintained. Reverse repurchase agreements are considered to be borrowings by the Fund under the 1940 Act.

Loans of Portfolio Securities. The Fund has the ability to lend securities from its portfolio to brokers, dealers and other financial organizations. There is no investment restriction on the amount of securities that may be loaned. The Fund may not lend its portfolio securities to Lehman Brothers or its affiliates without specific authorization from the SEC. Loans of portfolio securities by the Fund will be collateralized by cash, letters of credit or securities which

are consistent with its permitted investments, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. From time to time, the Fund may return a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party, which is unaffiliated with the Fund or Lehman Brothers, and which is acting as a "finder." With respect to loans by the Fund of its portfolio securities, the Fund would continue to accrue interest on loaned securities and would also earn income on loans. Any cash collateral received by the Fund in connection with such loans would be invested in securities in which the Fund is permitted to invest.

The Appendix to this Statement of Additional Information contains a description of the relevant rating symbols used by nationally recognized statistical rating organizations ("NRSROs") for Municipal Obligations that may be purchased by the Fund.

Investment Limitations

The Fund's Prospectuses summarize certain investment limitations that may not be changed without the affirmative vote of the holders of a majority of the Fund's outstanding shares (as defined below under "Additional Information Concerning Fund Shares"). Investment limitations numbered 1 through 6 may not be changed without such a vote of shareholders; investment limitations 7 through 12 may be changed by a vote of the Company's Board of Directors at any time.

The Fund may not:

1. Borrow money, except from banks for temporary purposes and then in amounts not exceeding 33 1/3% of the value of the Fund's total assets at the time of such borrowing; or mortgage, pledge or hypothecate any assets except in connection with any such borrowing and in amounts not in excess of the lesser of the dollar amounts borrowed or 33 1/3% of the value of the Fund's total assets at the time of such borrowing. Additional investments will not be made when borrowings exceed 5% of the Fund's assets, provided, however, that the Fund may increase its interest in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund while such borrowings are outstanding.

2. Purchase any securities which would cause 25% or more of the value of its total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments in U.S. Government securities or New York Municipal Obligations (other than those backed only by the assets and revenues of non-governmental users) and provided further that the Fund may invest all or substantially all of its assets in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund.

3. Make loans, except that the Fund may purchase or hold debt instruments in accordance with its investment objective and policies and enter into repurchase agreements with respect to portfolio transactions.

4. Act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under applicable securities laws in selling portfolio securities.

5. Purchase or sell real estate or real estate limited partnerships, provided that the Fund may purchase securities of issuers which invest in real estate or interests therein.

6. Purchase or sell commodities or commodity contracts, or invest in oil, gas or mineral exploration or development programs or in mineral leases.

7. Knowingly invest more than 10% of the value of the Fund's assets in securities that may be illiquid because of legal or contractual restrictions on resale or securities for which there are no readily available market quotations, provided, however, that the Fund may invest all or substantially all of its assets in another registered investment company having the same investment objective and policies and substantially the same investment restrictions as those with respect to the Fund.

8. Purchase securities on margin, make short sales of securities or maintain a short position.

9. Write or sell puts, calls, straddles, spreads or combinations thereof.

10. Invest in securities if as a result the Fund would then have more than 5% of its total assets in securities of companies (including predecessors) with less than three years of continuous operation.

11. Purchase securities of other investment companies except as permitted under the 1940 Act or in connection with a merger, consolidation, acquisition or reorganization.

12. Invest in warrants.

In addition, without the affirmative vote of the holders of a majority of the Fund's outstanding shares, the Fund may not change its policy of investing at least 80% of its total assets (except during temporary defensive periods) in Municipal Obligations.

In order to permit the sale of shares of the Fund in certain states, the Fund may make commitments more restrictive than the investment policies and limitations above. Should the Fund determine that any such commitments are no longer in its best interests, it will revoke the commitment by terminating sales of its shares in the state involved. Further, with respect to the above-stated second limitation, the Fund will consider wholly owned finance companies to be in the industries of their parents, if their activities are primarily related to financing the activities of their parents, and will divide utility companies according to their services; for example, gas, gas transmission, electric and gas, electric, and telephone will be considered a separate industry.

ADDITIONAL INFORMATION CONCERNING MUNICIPAL OBLIGATIONS

Municipal Obligations include debt obligations issued by governmental entities to obtain funds for various public purposes, including the construction of a wide range of public facilities, the refunding of outstanding obligations, the payment of general operating expenses and the extension of loans to public institutions and facilities. Private activity bonds that are or were issued by or on behalf of public authorities to finance various privately-operated facilities are included within the term Municipal Obligations if the interest paid thereon is exempt from regular federal income tax. Opinions relating to the validity of Municipal Obligations and to the exemption of interest thereon from federal income taxes (and, with respect to New York Municipal Obligations, New York State and New York City personal income taxes as well) are rendered by counsel to the issuers or bond counsel to the respective issuing authorities at the time of issuance. Neither the Fund nor LBGAM will review independently the underlying proceedings relating to the issuance of

Municipal Obligations or the bases for such opinions.

The Fund may hold tax-exempt derivatives which may be in the form of tender option bonds, participations, beneficial interests in a trust, partnership interests or other forms. A number of different structures have been used. For example, interests in long-term fixed-rate Municipal Obligations, held by a bank as trustee or custodian, are coupled with tender option, demand and other features when the tax-exempt derivatives are created. Together, these features entitle the holder of the interest to tender (or put) the underlying Municipal Obligation to a third party at periodic intervals and to receive the principal amount thereof. In some cases, Municipal Obligations are represented by custodial receipts evidencing rights to receive specific future interest payments, principal payments, or both, on the underlying municipal securities held by the custodian. Under such arrangements, the holder of the custodial receipt has the option to tender the underlying municipal securities at its face value to the sponsor (usually a bank or broker/dealer or other financial institution), which is paid periodic fees equal to the difference between the bond's fixed coupon rate and the rate that would cause the bond, coupled with the tender option, to trade at par on the date of a rate adjustment. The Fund may hold tax-exempt derivatives, such as participation interests and custodial receipts, for Municipal Obligations which give the holder the right to receive payment of principal subject to the conditions described above. The Internal Revenue Service has not ruled on whether the interest received on tax-exempt derivatives in the form of participation interests or custodial receipts is tax-exempt, and accordingly, purchases of any such interests or receipts are based on the opinion of counsel to the sponsors of such derivative securities. Neither the Fund nor LBGAM will independently review the underlying proceedings related to the creation of any tax-exempt derivatives or the bases for such opinions.

As described in the Fund's Prospectuses, the two principal classifications of Municipal Obligations consist of "general obligation" and "revenue" issues, and the Fund's portfolio may include "moral obligation" issues, which are normally issued by special purpose authorities. There are, of course, variations in the quality of Municipal Obligations, both within a particular classification and between classifications, and the yields on Municipal Obligations depend upon a variety of factors, including general money market conditions, the financial condition of the issuer, general conditions of the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. The ratings of statistical rating organizations represent their opinions as to the quality of Municipal Obligations. It should be recognized, that ratings are general and are not absolute standards of quality, and Municipal Obligations with the same maturity, interest rate and rating may have different yields while Municipal Obligations of the same maturity and interest rate with different ratings may have the same yield. Subsequent to its purchase by the Fund, an issue of Municipal Obligations may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. LBGAM will consider such an event in determining whether the Fund should continue to hold the obligation.

An issuer's obligations under its Municipal Obligations are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code, and laws, if any, which may be enacted by federal or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon the ability of municipalities to levy taxes. The power or ability of an issuer to meet its obligations for the payment of interest on and principal of its Municipal Obligations may

be adversely affected by litigation or other conditions.

Among other types of Municipal Obligations, the Fund may purchase short-term General Obligation Notes, Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation Notes, Tax-Exempt Commercial Paper, Construction Loan Notes and other forms of short-term loans. Such instruments are issued with a short-term maturity in anticipation of the receipt of tax funds, the proceeds of bond placements or other revenues. In addition, the Fund may invest in other types of tax-exempt instruments, including general obligation and private activity bonds, provided they have remaining maturities of 13 months or less at the time of purchase.

The payment of principal and interest on most securities purchased by the Fund will depend upon the ability of the issuers to meet their obligations. The State of New York, the District of Columbia, each other state, each of their political subdivisions, agencies, instrumentalities, and authorities and each multi-state agency of which a state is a member is a separate "issuer" as that term is used in this Statement of Additional Information and the Prospectuses for the Fund. The non-governmental user of facilities financed by private activity bonds is also considered to be an "issuer."

SPECIAL FACTORS AFFECTING THE FUND'S INVESTMENTS IN NEW YORK MUNICIPAL OBLIGATIONS

Some of the significant financial considerations relating to the investments of The New York Tax Free Money Market Fund in New York Municipal Obligations are summarized below. The following information constitutes only a brief summary, does not purport to be a complete description and is largely based on information drawn from official statements relating to securities offerings of New York municipal obligations available as of the date of this Statement of Additional Information. The accuracy and completeness of the information contained in such offering statements has not been independently verified.

New York State

New York State Financing Activities. There are a number of methods by which New York (the "State") may incur debt. Under the State Constitution, the State may not, with limited exceptions for emergencies, undertake long-term borrowing (i.e., borrowing for more than one year) unless the borrowing is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. There is no limitation on the amount of long-term debt that may be so authorized and subsequently incurred by the State. The total amount of long-term State general obligation debt authorized but not issued as of December 31, 1993 was approximately \$2.273 billion.

The State may undertake short-term borrowings without voter approval (i) in anticipation of the receipt of taxes and revenues, by issuing tax and revenue anticipation notes, and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued bonds, by issuing bond anticipation notes. Tax and revenue anticipation notes must mature within one year from their dates of issuance and may not be refunded or refinanced beyond such period. The amount of tax and revenue anticipation notes issued may not exceed either the amount of appropriations in force (which amount normally exceeds the amount of disbursements provided in the financial plan for each year) or the amount of taxes and revenues reasonably expected, at the time the notes are issued, to be available to pay such notes.

The State may also, pursuant to specific constitutional

authorization, directly guarantee certain State public benefit corporation ("Authority") obligations. Payments of debt service on State general obligation and State-guaranteed bonds and notes are legally enforceable obligations of the State.

The State also employs two other types of long-term financing mechanisms which are State-supported but are not general obligations of the State: moral obligation and lease-purchase or contractual-obligation financing. Moral obligation financing generally involves the issuance of debt by an Authority to finance a revenue-producing project or other activity, and the debt is secured by project revenues and statutory provisions of the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer's debt service reserve fund. Under lease-purchase or contractual-obligation financing arrangements, Authorities and certain municipalities have issued obligations to finance the construction and rehabilitation of facilities or the acquisition and rehabilitation of equipment, and expect to cover the debt service and amortizations of the obligations through the receipt of rental or other contractual payments made by the State. The State has also entered into a payment agreement with LGAC (as defined below). State lease-purchase or contractual-obligation financing arrangements involve a contractual undertaking by the State to make payments to an Authority, municipality or other entity, but the State's obligation to make such payments is generally expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments. The State also participates in the issuance of certificates of participation in a pool of leases entered into by the State's Office of General Services on behalf of several State departments and agencies. The State also participates in the issuance of certificates of participation in a pool of leases entered into by the State's Office of General Services on behalf of several State departments and agencies. The State has also participated in the issuance of certificates of participation for the acquisition of real property which represents proportionate interests in lease payments to be paid by the State.

Payments for principal and interest due on general obligations bonds, interest due on bond anticipation notes and on tax and revenue anticipation notes and contractual-obligation and lease-purchase commitments were \$1.783 billion and \$2.045 billion in the aggregate for the State's 1991-92 and 1992-93 fiscal years, respectively, and are estimated to be \$2.167 billion for the State's 1993-94 fiscal year and are budgeted at \$2.549 billion in the Recommended 1994-95 State Financial Plan. These figures do not include interest payable on either State General Obligation Refunding Bonds issued in July 1992, to the extent that such interest is to be paid from an escrow fund established with the proceeds of such Refunding Bonds, or the State's installment payments relating to the issuance of certificates of participation.

The State has never defaulted or any of its general obligation indebtedness or its obligations under lease-purchase or contractual-obligation financing arrangements and has never been valued upon to make any direct payments pursuant to its guarantees. There has never been a default on any moral obligation debt of any Authority.

In addition to the arrangements described above, State law provides for State municipal assistance corporation, which are Authorities authorized to aid financially troubled localities. The Municipal Assistance Corporation for The City of New York ("MAC"), created to provide financing assistance to New York City (the "City"), is the only municipal assistance corporation created to date. To enable MAC to pay debt service on its obligations, MAC receives, subject to annual appropriation by the Legislature, receipts from the 4% New York State Sales Tax for the Benefit of New

York City, the State-imposed Stock Transfer Tax and, subject to certain prior liens, certain local assistance payments otherwise payable to the City. The legislation creating MAC also includes a moral obligation provision. Under its enabling legislation, MAC's authority to issue bonds and notes (other than refunding bonds and notes) expired on December 31, 1984. Legislation has been enacted which would, under certain conditions, permit MAC to issue up to \$.1465 billion of additional bonds, which are not subject to a moral obligation provision.

State Financial Operations. The State has historically been one of the wealthiest states in the nation. For decades, however, the State economy has grown more slowly than that of the nation as a whole, gradually eroding the State's relative economic affluence. Statewide, urban centers have experienced significant changes involving migration of the more affluent to the suburbs and an influx of generally less affluent residents. Regionally, the older Northeast cities have suffered because of the relative success that the South and the West have had in attracting people and business. The City has also had to face greater competition as other major cities have developed financial and business capabilities which make them less dependent on the specialized services traditionally available almost exclusively in the City.

The State has for many years had a very high state and local tax burden relative to other states. The burden of State and local taxation, in combination with the many other causes of regional economic dislocation, may have contributed to the decisions of some businesses and individuals to relocate outside, or not locate within, the State.

A national recession commenced in mid-1990. The downturn continued throughout the State's 1990-91 fiscal year and was followed by a period of weak economic growth during the 1991 and 1992 calendar years. For calendar year 1993, the national economy grew faster than in 1992, but still at a very moderate rate, as compared to other recoveries. Economic recovery started considerably later in the State than in the nation as a whole due in part to the significant retrenchment in the banking and financial industries, downsizing by several major corporations, cutbacks in defense spending and an oversupply of office buildings. The forecast made by the Division of the Budget for the overall rate of growth of the national economy during calendar 1994 is similar to the "consensus" of a widely followed survey of national economic forecasters.

The New York economy, as measured by employment, shifted from recession to recovery near the start of calendar year 1993. During the course of calendar year 1993, employment began to increase, albeit sporadically, and the unemployment rate declined. The recovery is expected by the State to continue in calendar year 1994, with employment growing more rapidly, on average, than in the previous calendar year. Many uncertainties exist in forecasts of both the national and State economies, including employment levels and consumer attitudes toward spending, Federal fiscal and monetary policies and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience worse-than-predicted results in the 1993-94 and 1994-95 fiscal years, with corresponding material and adverse effects on the State's projections of receipts and disbursements.

The following discussion summarizes the 1993-94 State Financial Plan and the Recommended 1994-95 State Financial Plan with particular emphasis on the State's General Fund. Pursuant to statute, the State updates the financial plan at least on a quarterly basis. Due to changing economic conditions and information, public statements or reports may be released by the Governor, members of the State

Legislature, and their respective staffs, as well as others involved in the budget process from time to time. Those statements or reports may contain predictions, projections or other items of information relating to the State's financial condition, as reflected in the 1993-94 State Financial Plan, that may vary materially and adversely from the information provided herein.

General Fund receipts, excluding transfers from other funds, totaled \$28.818 billion in the State's 1991-92 fiscal year (before repayment of \$1.081 billion of deficit notes issued in 1990-91 fiscal year end before issuance of \$531 million in deficit notes to close the State's 1992-92 fiscal year General Fund cash-basis operating deficit), and \$29.950 billion in the State's 1992-92 fiscal year (before repayment of \$531 million in deficit notes issued to close the State's 1991-92 fiscal year General Fund cash-basis operating deficit). General Fund receipts in the State's 1994-95 fiscal year, including the margin available from the State's 1993-94 fiscal year, are budgeted at \$31.948 billion in the Recommended 1994-95 State Financial Plan.

General Fund disbursements, exclusive of transfers to other funds, totaled \$28.058 billion in the State's 1992-92 fiscal year and \$29.068 billion in the State's 1992-93 fiscal year, and are estimated to total \$30.421 billion in the State's 1993-94 fiscal year and are budgeted at \$31.453 billion in the Recommended 1994-95 State Financial Plan. Major General Fund disbursements categories and the approximate percentage of estimated fiscal year 1993-94 and budgeted fiscal year 1994-95 General Fund disbursements for which they account include grants to local governments (including aid to education, social services and State revenue sharing), 73% and 73%, respectively, State operations spending, 20% and 20%, respectively and other general State charges (including contributions to pension systems and employee fringe benefits), 7% and 7%, respectively.

Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and the State economy because a number of uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, Federal financial and monetary policies, the availability of credit and the condition of the world economy, which could have an adverse effect on the State. There can be no assurance that the State economy will not experience slower-than-predicted results in the 1993-94 fiscal year, with corresponding material and adverse effects on the State's projections of receipts and disbursements.

The State issued \$850 million in tax and revenue anticipation notes on May 4, 1993 to fund its day-to-day operations and certain local assistance payments to its municipalities and school districts. These tax and revenue anticipation notes were fully retired on December 31, 1993. The State anticipates that its borrowings for capital purposes in fiscal year 1993-94 will consist of approximately \$456 million in general obligation bonds. The State also expects to issue approximately \$140 million in general obligation bonds for the purpose of redeeming outstanding bond anticipation notes. The Legislature has also authorized the issuance of up to \$85 million in certificates of participation during the State's 1993-94 fiscal year for equipment purchases and real property purposes. The projection of the State regarding its borrowings for the 1993-94 and 1994-95 fiscal years may change if other circumstances require.

The Governor released the recommended Executive Budget for the 1993-94 fiscal year on January 19, 1993 and amended it on February 18, 1993. The 1993-94 State Financial Plan as recommended projected a balanced General Fund. General Fund receipts and transfers from other funds were projected at \$31.556 billion, including \$184 million carried over from the 1992-93 fiscal year. Disbursements and transfers from other funds were projected at \$31.489 billion, not

including a \$67 million repayment to the State's Tax Stabilization Reserve Fund.

The 1993-94 State Financial Plan issued on April 16, 1993 projected General Fund receipts and transfers from other funds at \$32.367 billion and disbursements and transfers to other funds at \$32.300 billion. Excess receipts of \$67 million were to be used for a required repayment to the State's Tax Stabilization Reserve Fund. In comparison to the recommended 1993-94 Executive Budget, the 1993-94 State budget, as enacted, reflected increases in both receipts and disbursements in the General Fund of \$811 million.

Revisions to the 1993-94 Financial Plan at the mid-year point resulted in a projected surplus of \$38 million. Revenues improved \$251 million, reflecting an improving economy. Disbursements increased by \$218 million to reflect projected deficiencies for school and income assistance.

The 1993-94 State Financial Plan was revised on January 18, 1994 and amended on February 17, 1994. The Financial Plan now projects a surplus of \$339 million, more than one percent of the General Fund. Positive developments affecting both receipts and disbursements contributed to this improved outlook for the current year. In addition, the State will pay a 53rd weekly Medicaid payment, estimated at \$120 million, deposit another \$82 million in a reserve fund for contingencies and deposit \$110 million in a Medicaid takeover reserve fund.

As a result of the United States Supreme Court decision in the case of State of Delaware v. State of New York, on January 21, 1994 the State entered into a settlement agreement with Delaware. The case involved a claim by Delaware that certain unclaimed dividends, interest and other distributions made by issuers of securities and held by New York-based brokers incorporated in Delaware, for beneficial owners who could not be identified or located, had been, and were being, wrongfully taken by the State pursuant to the State's abandoned property laws. The United States Supreme Court determined that the abandoned property should be remitted first to the state of the beneficial owner's last known address, if ascertainable, and if not, then to the State of incorporation of the intermediary bank, broker or depository. Pursuant to the settlement agreement, the State made an immediate \$35 million payment to Delaware and agreed to make annual payments of \$33 million in each of the next five fiscal years. In return, Delaware has agreed to withdraw its claims and its request for summary judgment. Litigation continues with respect to other parties and the State may be required to make additional payments, which may be significant, during the State's 1993-94 fiscal year or thereafter.

On November 16, 1993, the Court of Appeals, the State's highest court, affirmed the decision of the Appellate Division of the State's Supreme Court in three actions declaring unconstitutional certain legislation enacted in 1990. That legislation mandated a change in the actuarial funding method for determining contributions by the State and its local governments to the State and local retirement systems from the aggregate cost method, previously used by the Comptroller, to the projected unit credit method, and it required the application of the surplus reported under the projected unit credit method as a credit to employer contributions. As a result of the legislation, contributions to the retirement systems have been significantly reduced since the State's 1990-91 fiscal year. The Court of Appeals held, among other things, that the State Constitution, which prohibits the benefits of membership in the retirement systems from being impaired or diminished, was violated because the legislation impaired "the means designed to assure benefits to public employees by depriving the Comptroller of his personal responsibility to maintain the 'security and sources of

benefits' of the pension fund." As a result of this decision, the Comptroller has developed a plan to return to the aggregate cost method and to restore prior funding levels of the retirement systems. The Comptroller expects to achieve this objective in a manner that, consistent with his fiduciary responsibilities, will neither require the State to make additional contributions in its 1993-94 fiscal year nor materially and adversely affect the financial condition of the State thereafter. The Comptroller's plan calls for a return to the aggregate cost method, using a four-year phase-in in the New York State and Local Employees' Retirement System (ERS), with State aggregate cost contributions to ERS capped at a percentage of payroll that increases each year during the phase-in. Although State contributions under the plan are expected to be lower during the phase-in period than they would have been if the aggregate cost method were reinstated immediately, they are expected to exceed projected unit credit levels by \$30 million in fiscal 1994-95, \$63 million in fiscal 1995-96, \$116 million in fiscal 1996-97, and \$193 million in fiscal 1997-98. The excess over projected unit credit levels is expected to peak at \$241 million in fiscal 1998-99, when State contributions under the Comptroller's plan are first projected to exceed levels that would have been required by an immediate return to the aggregate cost method. The excess over projected unit credit levels is projected to decline after fiscal 1998-99, and beginning in fiscal 2001-02, State contributions required under the Comptroller's plan are projected to be less than projected unit credit requirements would have been.

The Governor presented the recommended Executive Budget for the State's 1994-95 fiscal year on January 18, 1994 and amended it on February 17, 1994. The Recommended 1994-95 State Financial Plan projects a balanced General Fund, with receipts and transfers from other funds projected at \$33.422 billion, including \$339 million carried over from the surplus anticipated for the State's 1993-94 fiscal year. Disbursements and transfers to other funds are projected at \$33.399 billion and, in addition, the Financial Plan includes a \$23 million repayment to the State's Tax Stabilization Reserve Fund. The Division of the Budget projects that at the close of the State's 1994-95 fiscal year, the balance in the Tax Stabilization Reserve Fund will be \$157 million. The balance available in the contingency Reserve Fund on April 1, 1994 is projected by the Division of the budget at \$311 million.

The 1994-95 Executive Budget follows a General Fund cash-basis surplus in the State's 1993-94 fiscal year. The Recommended 1994-95 Financial Plan is predicted on modest growth in the State economy. According to the division of the Budget it includes limited use of nonrecurring moneys, and is balanced without the use of significant cost-cutting measures such as layoffs or service reductions. In addition, the Recommended 1994-95 Financial Plan does not require an intra-year note issuance for cash flow purposes (a "spring borrowing").

Major revenue actions recommended in the 1994-95 Executive Budget include tax and fee reductions (\$210 million); preservation of revenues currently received (\$1.244 billion), primarily through deferral of a scheduled personal income tax rate reduction; additional revenue measures (\$58 million), resulting primarily from the collection of unredeemed deposits on bottles and cans; increased lottery revenues due to changes proposed in lottery games (\$130 million); and enhanced revenue collection and enforcement measures (\$49 million).

Major programmatic recommendations include a \$198 million increase in school aid (on a school year basis), \$185 million in statutory Medicaid cost-containment initiatives, additional State takeover of local government Medicaid costs amounting to \$110 million, funding for new programs to fight crime and spur economic

development, increased funding for community-based mental hygiene programs consistent with legislation passed in the 1993 Legislative session, and productivity initiatives which constrain the cost of operating State government.

There can be no assurance that the Legislature will enact the Executive Budget as proposed, nor can there be any assurance that the Legislature will enact a budget for the State's 1994-95 fiscal year prior to the beginning of such fiscal year. In recent years, the Legislature has failed to enact a budget prior to the beginning of the State's fiscal year. A protracted delay in legislative enactment of the State's 1994-95 fiscal year budget may reduce the effectiveness of several of the actions proposed. The 1994-95 State Financial Plan, when formulated after enactment of the budget, would have to take into account any reduced savings arising from any late budget enactment.

For its 1992-93 fiscal year the State had a balanced budget on a cash basis with a positive margin of \$671 million in the General Fund that was deposited in the refunded reserve account. During its 1991-92 and 1990-91 fiscal years, the State incurred cash-basis operating deficits, prior to the issuance of tax and revenue anticipation notes, owing to lower-than-projected receipts, which it believes to have been principally the result of a significant slowdown in the New York and regional economy.

The State's 1992-93 fiscal year was characterized by national and regional economies that performed better than projected in April 1992. National gross domestic product, State personal income, and employment and unemployment in the State performed better than originally projected in April 1992.

After reflecting a 1992-93 year-end deposit to the refund reserve account of \$671 million, reported 1992-93 General Fund receipts were \$45 million higher than originally projected in April 1992. If not for that year-end transaction, which had the effect of reducing 1992-93 receipts by \$671 million and making those receipts available in 1993-94, General Fund receipts would have been \$716 million higher than originally projected.

The favorable performance was primarily attributable to personal income tax collections that were more than \$700 million higher than originally projected (before reflecting the refund reserve transaction). The withholding and estimated payment components of the personal income tax exceed original estimates by more than \$800 million combined, reflecting both stronger economic activity, particularly at year's end, and the tax-induced one-time acceleration of income in 1992. Modest short-falls were experienced in other components of the income tax.

There were large, but largely offsetting, variances in other categories. Significantly higher-than-projected business tax collections and the receipt of unbudgeted payments from the Medical Malpractice Insurance Association and the New York Racing Association approximately offset the loss of an anticipated \$200-million Federal reimbursement, the loss of certain budgeted hospital different revenue as a result of unfavorable court decisions, and shortfalls in certain miscellaneous revenue sources.

Disbursements and transfers to other funds totaled \$30.829 billion, an increase of \$45 million above projections in April 1992. After adjusting for the impact of a \$150 million payment from the Medical Malpractice Insurance Association to health insurers pursuant to legislation passed in January 1993, actual disbursements were \$105 million lower than projected. This reduction primarily reflected lower costs in virtually all other categories of spending, including Medicaid, local health programs, agency operations, fringe benefits,

capital projects and debt service as partially offset by higher-than-anticipated costs for education programs.

The State Financial Plan for the 1991-92 fiscal year was initially formulated on June 10, 1991 and included increased taxes and other revenues, deferral of scheduled personal income tax reductions, significant reductions from previously projected levels in aid to localities and State operations and other budgetary actions that were expected to maintain many items of General Fund disbursements at or below the 1990-91 fiscal year levels. The 1991-92 State Financial Plan was formulated after disagreement between the Governor and the legislative leaders over spending levels, revenue-raising measures and estimates of the impact of legislative actions and after the Governor vetoed \$937 million in spending measures which the Legislature added to his proposed Executive Budget without providing the necessary revenues.

On July 4, 1991, the Legislature, after consultation with the Governor, passed appropriation bills adding a net of \$676 million in spending in the State's 1991-2 fiscal year. The additional spending was expected to be financed through several actions including amendments to the tax law to raise the tax rate on certain regulated businesses (\$200 million) and to increase revenue from the personal income tax for taxpayers with adjusted gross income of \$100,000 or more (\$100 million), offset, in part, by reductions in a portion of the petroleum and energy-based taxes enacted in June 1991 (\$145 million); restoration of additional tax receipts (\$139 million) resulting from added State support for the Department of Taxation and Finance; \$98 million in additional nonrecurring actions including \$57 million in anticipated receipts from the Federal government in settlement of foster care claims and \$41 million in payment restructuring; use of \$80 million in Thruway Authority funds; other miscellaneous actions; and further administrative actions to reduce spending.

The national and regional economic recession has caused a substantial reduction in State tax receipts. Uncertainties in taxpayer behavior as a result of actual and proposed changes in Federal tax laws can also have an adverse impact on State tax receipts. As a result of the foregoing uncertainties and other factors, actual results could differ materially and adversely from time to time. There can be no assurance that the State will not face substantial potential budget gaps in future years resulting from a significant disparity between tax revenues projected from a lower recurring receipts base and the spending required to maintain State programs at current levels. To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements in future fiscal years.

In 1990, as part of a State fiscal reform program, legislation was enacted creating the New York Local Government Assistance Corporation ("LGAC"), a public benefit corporation empowered to issue long-term obligations to fund certain payments to local governments traditionally funded through the State's annual seasonal borrowing. The legislation empowered LGAC to issue its bonds and notes in an amount not in excess of \$4.7 billion (exclusive of certain refunding bonds) plus certain other amounts. Over a period of years, the issuance of those long-term obligations, which will be amortized over no more than 30 years, is expected to result in eliminating the need for continuing short-term seasonal borrowing for those purposes. The legislation also imposed a cap on the annual seasonal borrowing of the State at \$4.7 billion, less net proceeds of bonds issued by LGAC and bonds issued to provide for capitalized interest, except in cases where the Governor and the legislative leaders have certified both the need for additional borrowing and provided a schedule for reducing it to the cap. If borrowing above the cap is thus permitted in any fiscal year, it is required by law to be reduced to the cap by

the fourth fiscal year after the limit was first exceeded. As of February 28, 1994 LGAC has issued its bonds to provide net proceeds of \$3.716 billion and has been authorized to issue its bonds to provide the proceeds of up to an additional \$140 million during the State's 1993-94 fiscal year. The Governor has recommended up to \$315 million in additional LGAC bond issuances in the 1994-95 fiscal year.

In April 1993, legislation was also enacted provided for significant changes in the long-term financing practice of the State and the Authorities.

The Legislature passed a proposed constitutional amendment that would permit the State, without a voter referendum but within a formula-based cap, to issue revenue bonds, which would be debt of the State secured solely by a pledge of certain State tax receipts (including those allocated to State funds dedicated for transportation purposes), and not by the full faith and credit of the State. In addition, the proposed amendment would require that State debt be incurred only for capital projects included in a multi-year capital financing plan and would prohibit lease-purchase and contractual-obligation financing mechanisms for State facilities. Public hearings have been held on the proposed constitutional amendment. The Governor has announced that he intends to submit changes to the proposed constitutional amendments. Before becoming effective, the proposed constitutional amendment must first be passed again by the next separately-elected Legislature and then approved by the voters at a general election, so that it could not become effective until after the general election in November 1995. If the proposed constitutional amendment were to be amended and passed at the 1994 legislative session, the schedule outlined in the previous sentences would still be applicable.

On March 10, 1993, Moody's confirmed its A rating of State general obligation bonds, stating that the State's "credit standing reflects its diverse and substantial economic base, a strength offset by structural imbalance of state finances and increase debt levels. Chronic financial problems weight most heavily on New York State's credit evaluation ... The State anticipates ending the current fiscal year with a small operating surplus, compared with deficits recorded in each of the prior five years. While the State's stringent cash condition has eased, fiscal reforms depends on efforts to restrain spending, use of realistic revenue estimates in light of uncertain economic growth, reduced reliance on non-recurring actions, and timely budget enactment." On December 30, 1993, Moody's reconfirmed the A rating. On March 5, 1993, S&P affirmed its A- rating on State general obligation bonds, stating that this rate "reflects a contracting economic base, manageable yet rising debt levels and historically weak financial performance and position." S&P further stated that "the outlook remains negative; however, the outlook could be revised to stable if the state closes fiscal 1993 as anticipated and the 1994 budget is passed on time and is once again based on realistic economic projections." On April 27, 1993, S&P revised its rating outlook to stable, citing the state's operating surplus and timely budget passage. On December 20, 1993, S&P confirmed its A-rating and continued to express a stable outlook. On February 14, 1994, S&P raised its outlook to positive.

On January 13, 1992, S&P lowered its rating on State general obligation bonds to A- from A. S&P noted that the "continued economic deterioration, chronic operating deficits, mounting GAAP fund balance deficits, and the legislative stalemate in seeking permanent and structurally sound fiscal operations" had contributed to the downgrade. On January 6, 1992, Moody's lowered from A to Baa1 the ratings on a substantial portion of appropriation-backed debt of the State, citing increasing budget deficits, the inability of the legislature and the administration to agree in a timely fashion on a deficit reduction plan for the current fiscal year, as well as

continued weakness in the economy.

On June 6, 1990, Moody's changed its ratings on all of the State's outstanding general obligation bonds from A1 to A, the rating having been A1 since May 27, 1986. On November 12, 1990, Moody's confirmed the A rating. On March 26, 1990, S&P lowered its rating of all of the State's outstanding general obligation bonds from AA- to A. Previous S&P ratings were AA- from August, 1987 to March, 1990 and A+ from November, 1982 to August, 1987.

Authorities. The fiscal stability of the State is related to the fiscal stability of its Authorities, which generally have responsibility for financing, constructing and operating revenue-producing public benefit facilities. Authorities are not subject to the constitutional restrictions on the incurrence of debt which apply to the State itself, and may issue bonds and notes within the amounts of, and as otherwise restricted by, their legislative authorization. As of September 30, 1993, the latest data available, there were 18 Authorities that had outstanding debt of \$100 million or more. The aggregate outstanding debt, including refunding bonds, of these 18 Authorities was \$63.5 billion as of September 30, 1993, of which approximately \$7.7 billion was moral obligation debt and approximately \$19.3 billion was financed under lease-purchase or contractual-obligation financing arrangements.

Authorities are generally supported by revenues generated by the project financed or operated, such as fares, user fees on bridges, highway tolls and rentals for dormitory rooms and housing. In recent years, however, the State has provided financial assistance through appropriations, in some cases of a recurring nature, to certain of the 18 Authorities for operating and other expenses and, in fulfillment of its commitments on moral obligation indebtedness or otherwise, for debt service. This operating assistance is expected to continue to be required in future years. Failure of the State to appropriate necessary amounts or to take other action to permit those Authorities having financial difficulties to meet their obligations could result in a default by one or more of the Authorities. Such default, if it were to occur, would be likely to have significant adverse affect on investor confidence in, and therefore the market price of, obligations of the defaulting Authorities.

The State's experience has been that if an Authority suffers serious financial difficulties, both the ability of the State and the Authorities to obtain financing in the public credit markets and the market price of the State's outstanding bonds and notes may be adversely affected. The New York State Housing Finance Agency, the New York State Urban Development Corporation and certain other authorities have in the past required and continue to require substantial amounts of assistance from the State to meet debt service costs or to pay operating expenses. Further assistance, possibly in increasing amounts, may be required for these, or other, Authorities in the future. In addition, certain statutory arrangements provide for State local assistance payments otherwise payable to localities to be made under certain circumstances to certain Authorities. The State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to Authorities under these arrangements. However, in the event that such local assistance payments are so diverted, the affected localities could seek additional State funds

Metropolitan Transportation Authority (the "MTA"). The MTA oversees the operation of the City's subway and bus lines by its affiliates, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, the "TA"). The MTA operates certain commuter rail and bus lines in the New York Metropolitan area through MTA's subsidiaries, the Long Island Rail Road Company, the Metro-North Commuter Railroad Company and the

Metropolitan Suburban Bus Authority. In addition, the Staten Island Rapid Transit Operating Authority, and MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (the "TBTA"), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended and will continue to depend for operating support upon a system of State, local government and TBTA support, and, to the extent available, Federal operating assistance, including loans, grants and operating subsidies.

The TA and the commuter railroads, which are on a December 31 fiscal year, ended 1993 with their budgets balanced on a cash basis. The TA had a closing cash balance of approximately \$39 million.

Over the past several years the State has enacted several taxes -- including a surcharge on the profits of banks, insurance corporations and general business corporation doing business in the 120 county Metropolitan Transportation Region served by the MTA and a special one-quarter of 1 percent regional sales and use tax -- that provide revenues for mass transit purposes, including assistance to the MTA. The surcharge, which expires in November 1995, yielded approximately \$533 million in calendar year 1993, of which the MTA was entitled to receive approximately 90 percent, or approximately \$480 million. These amounts include some receipts resulting from a change in State law to require taxpayers to make estimated payments on their surcharge liabilities. In addition, in March 1987, legislation was enacted that creates an additional source of recurring revenues for the MTA. This legislation requires that the proceeds of a one-quarter of 1 percent mortgage recording tax paid on certain mortgages in the Metropolitan Transportation Region that heretofore had been paid to the State of New York Mortgage Agency be deposited in a special MTA fund. These tax proceeds may be used by the MTA for either operating or debt service expenses. The March 1987 legislation also requires the MTA to pay \$25 million annually from its existing recurring mortgage recording tax revenues, of which \$20 million is to be paid to the State for highway purposes in the Metropolitan Transportation Region, except in New York City, to the extent revenues are available therefor, and the remaining \$5 million of which is to be paid to certain counties in the Metropolitan Transportation Region.

In accordance with enacted State legislation for the State's 1992-93 fiscal year, the MTA submitted a one-year capital program for 1992 which contained \$1.635 billion of projects for the TA and commuter systems combined, \$1.293 billion of which is allocated to the TA's capital program. The State Capital Program Review Board (the "CPRB") approved such program in May 1992. The enacted State legislation further required the MTA to submit to the CPRB by October 1, 1992 a proposed plan covering the period 1992 through 1996. This proposed plan was disapproved by the CPRB on December 30, 1992 "without prejudice." On April 15, 1993, State legislation was enacted that authorized the funding of a portion of a five-year \$9.56 billion capital plan for the MTA for 1992 through 1996. The MTA submitted a 1992-1996 Capital Program based on this legislation for the approval of the CPRB, as State law requires. Such plan was approved by the CPRB on December 17, 1993.

There can be no assurances that all the necessary government actions for 1992-96 Capital Program will be taken, that funding sources currently identified will not be decreased or eliminated, or that the Program, or parts thereof, will not be delayed or reduced. Furthermore, the MTA has been named as a respondent in a lawsuit challenging the constitutionality of certain State borrowing practices. If the Program is delayed or reduced, ridership and fare revenues may decline, which could, among other things, impair the MTA's ability to meet its operating expenses without additional State

assistance.

Localities. Certain localities in addition to the City could have financial problems leading to requests for additional State assistance during the State's 1993-94 and 1994-95 fiscal years and thereafter. The potential impact on the State of such actions by localities is not included in the projections of the State receipts and disbursements in the State's 1993-94 and 1994-5 fiscal years.

Fiscal difficulties experienced by the City of Yonkers ("Yonkers") resulted in the creation of the Financial Control Board for the City of Yonkers (the "Yonkers Board") by the State in 1984. The Yonkers Board is charged with oversight of the fiscal affairs of Yonkers. Future actions taken by the Governor or the State Legislature to assist Yonkers could result in allocation of State resources in amounts that cannot yet be determined.

Municipal Indebtedness. Municipalities and school districts have engaged in substantial short-term and long-term borrowings. In 1992, the total indebtedness of all localities in the State was approximately \$35.2 billion, of which \$19.5 billion was debt of the City (excluding \$5.9 billion in MAC debt); a small portion (approximately \$71.6 million) of the \$35.2 billion of indebtedness represented borrowing to finance budgetary deficits and was issued pursuant to enabling State legislation. State law requires the Comptroller to review and make recommendations concerning the budgets of those local government units other than the City authorized by the State law to issue debt to finance deficits during the period that such deficit financing is outstanding. Seventeen localities had outstanding indebtedness for deficit financing at the close of their 1992 fiscal year.

In 1992, an unusually large number of local government units required authorization for deficit financing. According to the Comptroller, nine local government units were authorized to issue deficit financing in the aggregate amount of \$131.1 million, including Nassau County for \$65 million in six-year deficit bonds and Suffolk County for \$36 million in six-year deficit bonds. Although the Comptroller has indicated that this level of deficit-financing requests in 1992 was unprecedented, in 1993 five localities were authorized to issue only \$5.5 million in deficit financing indebtedness. Such developments are not expected to have a material adverse effect on the financial condition of the State.

Certain proposed Federal expenditure reductions would reduce, or in some cases eliminate, Federal funding of some local programs and accordingly might impose substantial increased expenditure requirements on affected localities. If the State, the City or any of the Authorities were to suffer serious financial difficulties jeopardizing their respective access to the public credit markets, the marketability of notes and bonds issued by localities within the State could be adversely affected. Localities also face anticipated and potential problems resulting from certain pending litigation, judicial decisions and long-range economic trends. The longer-range potential problems of declining urban population, increasing expenditures and other economic trends could adversely affect certain localities and require increasing State assistance in the future.

Litigation. Certain litigation pending against the State or its officers or employees could have a substantial or long-term adverse effect on State finances. Among the more significant of these cases are those that involve: (i) the validity of agreements and treaties by which various Indian tribes transferred title to the State of certain land in central and upstate New York; (ii) contamination in the Love Canal area of Niagara Falls; (iii) an action against State and City officials alleging that the present level of shelter allowance for public assistance recipients is inadequate under

statutory standards to maintain proper housing; (iv) challenges to the practice of reimbursing certain Office of Mental Health patient care expenses from the client's Social Security benefits; (v) a challenge to the methods by which the State reimburses localities for the administrative costs of food stamp programs; (vi) a challenge to the State's possession of certain funds taken pursuant to the State's Abandoned Property Law; (vii) alleged responsibility of State officials to assist remedying racial segregation in the City of Yonkers; (viii) an action, in which the State is a third party defendant, for injunctive or other appropriate relief, concerning liability for the maintenance of stone groins constructed along certain areas of Long Island's shoreline; (ix) a challenge to the constitutionality of financing programs of the Thruway Authority authorized by Chapters 166 and 410 of the Laws of 1991; (x) a challenge to the constitutionality of financing programs of the Metropolitan Transportation Authority and the Thruway Authority authorized by Chapter 56 of the Laws of 1993; (xi) challenges by commercial insurers, employee welfare benefit plans, and health maintenance organizations to provisions of Section 2807-c of the Public Health Law which impose 13%, 11% and 9% surcharges on inpatient hospital bills and a bad debt and charity care allowance on all hospital bills paid by such entities; (xii) challenges to the promulgation of the State's proposed procedure to determine the eligibility for an nature of home care services for Medical recipients; (xiii) a challenge to State implementation of a program which reduces Medicaid benefits to certain home-relief recipients; and (xiv) a challenge to the rationality and retroactive application of State regulations recalibrating nursing home Medicaid rates.

In *Schulz, et al. v State of New York et al.*, commenced May 24, 1993, Supreme Court, Albany County, petitioners challenge, among other things, the constitutionality of, and seek to enjoin certain highway, bridge and mass transportation bonding programs of the New York State Thruway Authority and the MTA authorized by Chapter 56 of the Laws of 1993. Petitioners contend that the application of State tax receipts held in dedicated transportation funds to pay debt service on bonds of the Thruway Authority and of the MTA violates Section 8 and 11 of Article VII and Section 5 of Article X of the State Constitution and due process provisions of the State and Federal Constitutions. By order dated July 27, 1993, the Supreme Court granted defendants' motions for summary judgment, dismissed the complaint, and vacated the temporary restraining order previously issued. By decision dated October 21, 1993, the Appellate Division, Third Department, affirmed the judgment of the Supreme Court. Plaintiffs' appeal of the decision of the Appellate Division is pending the Court of Appeals.

In an action commenced on August 6, 1991 (*Schultz, et al. v. State of New York, et al.*), Supreme Court, Albany County), discussed in item (ix) above, plaintiffs challenge the constitutionality of two bonding programs of the Thruway Authority authorized by Chapters 166 and 410 of the Laws of 1991. Plaintiffs argue that cooperative highway contractual agreements and service contracts to be entered into by the State and the Thruway Authority in connection with the bonding programs constitute State debt and a gift or loan of State credit in violation of Section 8 and 11 of Article VII and Section 5 of Article X of the State Constitution. In addition, plaintiffs challenge the fiscal year 1991-92 Judiciary budget as having been enacted in violation of Section 1 and 2 of Article VII of the State Constitution. The defendants' motion to dismiss the action on procedural grounds was denied by order of the Supreme Court dated January 2, 1992. By order dated November 5, 1992, the Appellate Division, Third Department, reversed the order of the Supreme Court and granted defendants' motion to dismiss on grounds of standing and mootness. By order dated September 16, 1993, on motion to reconsider, the Appellate Division, Third Department, ruled that plaintiffs have standing to challenge the bonding program authorized

by Chapter 166 of the Laws of 1991. The action is pending in Supreme Court, Albany County.

Adverse developments in those proceedings or the initiation of new proceedings could affect the ability of the State to maintain balanced 1993-94 and 1994-95 State Financial Plans. An adverse decision in any of the above cited proceedings could exceed the amount of the 1993-94 State Financial Plan reserves for the payment of judgments and, therefore, could affect the ability of the State to maintain a balanced 1993-94 and 1994-95 State Financial Plan.

New York City

The fiscal health of the State is closely related to the fiscal health of its localities, particularly the City, which has required and continues to require significant financial assistance from the State. The City's independently audited operating results for each of its 1981 through 1993 fiscal years, which end on June 30, shows a General Fund surplus reported in accordance with GAAP. In addition, the City's financial statements for the 1993 fiscal year received an unqualified opinion from the City's independent auditors, the eleventh consecutive year the City has received such an opinion.

In response to the City's fiscal crisis in 1975, the State took a number of steps to assist the City in returning to fiscal stability. Among these actions, the State created MAC to provide financing assistance to the City. The State also enacted the New York State Financial Emergency Act for The City of New York (the "Financial Emergency Act") which, among other things, established the New York State Financial Control Board (the "Control Board") to oversee the City's financial affairs. The State also established the Office of the State Deputy Comptroller for the City of New York ("OSDC") to assist the Control Board in exercising its powers of approval over the City's financial plan were suspended pursuant to the Financial Emergency Act. However, the Control Board, MAC and OSDC continue to exercise various monitoring functions relating to the City's financial position. The City operates under a four-year financial plan which is prepared annually and is periodically updated. The City submits its financial plans as well as the periodic updates to the Control Board for its review.

Estimates of the City's revenues and expenditures are based on numerous assumptions and subject to various uncertainties. If expected Federal or State aid is not forthcoming, if unforeseen developments in the economy significantly reduce revenues derived from economically sensitive taxes or necessitate increased expenditures for public assistance, if the City should negotiate wage increases for its employees greater than the amounts provided for in the City's financial plan or if other uncertainties materialize that reduce expected revenues or increase projected expenditures, then, to avoid operating deficit, the City may be required to implement additional actions, including increases in taxes and reductions in essential City services. The City might also seek additional assistance from the State.

The City achieved balanced operating results as reported in accordance with GAAP for the 1993 fiscal year.

In February 1994, the City released the Financial Plan for the 1994 through 1997 fiscal years, which is a modification to a financial plan submitted to the Control Board on August 30, 1993 and which relates to the City, the Board of Education and the City University of New York. The gap-closing actions for the 1994 fiscal year included substantial productivity savings and savings from restructuring the delivery of City services, service reductions, and the sale of delinquent real property tax receivables for \$215 million. The proposed sale of real property tax receivables requires

authorization by the City Council. Subsequent to the submission of the Financial Plan to the Control Board, the City proposed additional "other than personal service" expenditure reductions to offset additional projected expenditures resulting from the unusually harsh winter.

The Financial Plan also sets forth projections for the 1995 through 1997 fiscal years and outlines a proposed gap-closing program to close projected budget gaps of \$2.3 billion, \$3.2 billion for the 1995 through 1997 fiscal years, respectively. The projections include the continuation of the personal income tax surcharge, resulting in revenues of \$415, \$443 and \$470 million in the 1995, 1996 and 1997 fiscal years, respectively, and reflect a recent decline in property tax forecast for each of the 1995 through 1997 fiscal years. The proposed gap-closing actions include City actions aggregating \$1.9 billion, \$1.8 billion and \$1.6 billion in the 1995 through 1997 fiscal years, respectively; \$275 million and \$705 million in proposed State actions in the 1995 through 1997 fiscal years, respectively; and other unspecified Federal, State or City actions of \$629 million and \$740 million in the 1996 and 1997 fiscal years, respectively.

The proposed City actions include increased revenues and reduced expenditures from agency actions and efficiently initiatives aggregating \$1.1 billion, \$1.4 billion and \$1.5 billion in the 1995 through 1997 fiscal years, respectively, including productivity savings, tax and free enforcement initiatives, service reductions, savings from the restructuring of City services, and other initiatives, including a proposed lottery. Proposed productivity initiatives and initiatives regarding the restructuring of City services could include work rule changes for City employees; combining City agencies which perform overlapping functions; the competitive bidding out of service performed by the City; and the decentralization of Certain City services. Certain of these initiatives, including work rule changes, will be subject to negotiation with the City's municipal unions, and other initiatives, including the proposed video lottery, tort reform and the combining of certain City agencies, will require approval of the State legislature.

City gap-closing actions also include a reduction in City personnel as the result of a severance program, which the City proposes to be funded by MAC in the 1994 fiscal year, and a partial hiring freeze, or alternatively, through attrition and layoffs, which would result in net savings of \$144 million, \$311 million and \$415 million in each of the 1995, 1996 and 1997 fiscal years. Implementation of the voluntary severance program will depend upon the cooperation of the City's municipal unions to permit transfers of certain remaining employees among City agencies, and the availability in the 1994 fiscal year of \$200 million from MAC for the estimated cost of severance payments. On March 23, 1994, the Mayor ordered commissioners of the City's agencies to select 10,000 City workers who could be laid off quickly. The Mayor has publicly stated that in the event that the City is unable to reach severance agreements with municipal labor unions, or if permission from MAV to use the \$200 million surplus to pay for the severance packages is not received, the City will resort to layoffs immediately. Additional proposed City gap-closing actions include annual savings of \$200 million for health insurance costs, resulting from City employees sharing in the payment of premiums or from alternative proposals, and savings of \$200 million and \$100 million in the 1995 and 1996 fiscal years, respectively, from reduced pension costs. The savings from reduced pension costs assume that the City Actuary will accelerate recognition of recent pension investment returns which were in excess of the assumed investment returns and will continue the current assumptions with respect to wages for City employees and earnings on pension fund assets affecting the City's required pension fund

contributions. The proposed savings for health insurance costs will be subject to collective bargaining negotiations with the City's unions. The City gap-closing actions described above are partially offset by reduced revenues of \$35 million, \$186 million and \$534 million in the 1995, 1996 and 1997 fiscal years, respectively, from a proposed tax reduction program.

The proposed State actions include the proposed reallocation of State education aid among various localities totaling \$80 million, \$160 million and \$240 million in the 1995 through 1997 fiscal years, respectively, and \$130 million, \$300 million and \$400 million of savings in the 1995, 1996 and 1997 fiscal years, respectively, from the proposed State assumption of certain Medicaid costs.

Although the City has maintained balanced budgets in each of its last thirteen fiscal years, and is projected to achieve balanced operating results for the 1994 fiscal year, there can be no assurance that the gap-closing actions can be successfully implemented or that the city will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Various actions proposed in the Financial Plan, including a continuation of the resident personal income tax surcharge beyond December 31, 1995 and the proposed increase in State aid, are subject to approval by the Governor and the State Legislature, and the proposed increase in Federal aid is subject to approve proposals for State assumption of certain Medicaid costs, mandate relief and reallocation of State education aid, thereby increasing the uncertainty as to the receipt of the State assistance included in the Financial Plan. The Governor has submitted to the current Legislature a proposal for the State assumption of certain Medicaid costs. In addition, on February 17, 1994, the Governor proposed the deposit of \$110 million in a Medicaid Takeover Reserve Fund to be available in the State's 1995 fiscal year to local governments for certain Medicaid costs. If these two proposals for local Medical relief are enacted as proposed, the Governor has stated that the City would receive approximately \$130 million during the City's 1995 fiscal year. If these actions cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan. The Financial Plan has been the subject of extensive public comment and criticism particularly regarding the sale of delinquent property tax receivables, the amount of State and Federal aid included in the Financial Plan and the amount of savings contingent on collective bargaining agreements yet to be reached with the City's work force.

The \$2.3 billion budget gap for the 1995 fiscal year is the largest budget gap which has been projected for the next succeeding fiscal year at this stage of the budget planning process for the last four years. It can be expected that the proposal contained in the Financial Plan to close the projected budget gap for the 1995 fiscal year will engender substantial public debate, and that public debate relating to the 1995 fiscal year budget will continue through the time the budget is scheduled to be adopted in June 1994.

From time to time, the Control Board staff, MAC, OSDC, the City Comptroller, various Federal agencies and other issue reports and make public statements regarding the City's financial condition, commencing on, among other matters, the City's financial plans, projected revenues and expenditures and actions by the City to eliminate projected operating deficits. Some of these reports and statements have warned that the City may have underestimated certain expenditures and overestimated certain revenues and have suggested that the City may not have adequately provided for future contingencies. Certain of these reports have analyzed the City's

future economic and social conditions and have questioned whether the City has the capacity to general sufficient revues in the future to meet the costs of its expenditure increases and to provide necessary services. It is reasonable to expect that such reports and statements will continue to be issued and to engender public comment.

On March 1, 1994, the City Comptroller issued a report on the state of the City's economy. The report concluded that, while the City's long recession is over, moderate growth is the best the City can expect, with the local economy being held back by continuing weakness in important international economies. The report projects that total tax revenues for the 1994 and 1995 fiscal years will be \$45 million and \$107 million higher than projected in the Financial Plan, due primarily to higher estimates of the personal income tax and the banking corporation tax. In addition, the report projects that, while tax revenues for the 1997 fiscal year will be below the Financial Plan projections by \$76 million, due primarily to a projected shortfall in property tax revenues. The report identified revenue risks for the 1994 through 1997 fiscal years totaling \$9 million, \$134 million, \$184 million and \$184 million, respectively, relating to the proposed video lottery and certain audit initiatives and other revenues. In the report that City Comptroller also offered certain alternative tax initiative to the tax reductions proposed by the Mayor, which are designed to further stimulate the creation of jobs.

On March 21, 1994, the City Comptroller identified as risks for the 1995 fiscal year the proposals in the Financial Plan that are uncertain because they depend on actions by organizations other than City government, including the State Legislature and municipal unions. The City Comptroller stated that if none of the uncertain proposals are implemented, the total risk could be as much as \$1.15 billion to \$1.53 billion. These risks include a possible \$39 million increase in overtime costs; the possible need for a \$30 million increase in the reserve to fund disallowances of State and Federal claims; approval by the State Legislature of a tort reform program to limit damage claims against the City, which would result in savings of \$45 million; the receipt of \$125 million of funding for the State payment of certain costs for administering the Medicaid program and an additional \$145 million in State aid; agreement of municipal unions to employee co-sharing of the payment of premiums with respect to health insurance costs by \$200 million; approval by the City Actuary of the acceleration of earnings which were in excess of assumed investment returns, which would result in reduced contributions by the City of \$200 million to the municipal pension systems; uncertainties relating to the proposed reduction in the City's workforce, which is subject to further discussion with the City's municipal unions, BOE and MAC; assumed improvement in the collection of taxes, fines and fees totaling \$120 million; uncertainties involving State Legislative approval of an extension of late payment penalties on overdue parking violations and the proposed State video lottery; and renegotiation of the terms of certain Port Authority leases totaling \$75 million.

The City Comptroller noted that there are a number of additional issues, the impact of which cannot currently be quantified, including the proposed \$291 million participation of BOE in the gap-closing program, the amount of proposed asset sales assumed in the Financial Plan and the impact of a recent court decision on recycling which could cost the City \$100 million in the 1995 fiscal year. Finally, the City Comptroller has recommended that the City abandon its plan to sell real property tax receivables to generate \$215 million in the 1994 fiscal year.

The City Comptroller issued a report on February 17, 1994 projecting that the exceptionally harsh winter would cost the City an

additional \$37 to \$50 million. The report also stated that the City Comptroller would issue a report in April quantifying other additional costs of this exceptional winter, which may be substantial, including possible decreased tax revenues due to lost business and increased expenditures due to higher use of health facilities by Medicaid participants and overtime costs for City employees not directly involved in snow removal.

On March 22, 1994, OSDC issued a report reviewing the Financial Plan. The report concluded that a balanced budget is achievable for the 1994 fiscal year. The report noted that expenditures for the 1994 fiscal year may be higher than projected by \$176 million, due primarily to possible overspending at BOE, revenue shortfalls at New York City Health and Hospitals Corporation ("HHC") and overtime costs in the uniformed agencies; however, the City has initiated a program that is intended to reduce nonpersonnel costs by up to \$150 million. In addition, the report noted that the Financial Plan includes a general revenue of \$198 million and assumes savings of \$117 million from the implementation of the proposed severance program for the 1994 fiscal year. While the City intends to transfer \$234 million of these resources to help balance the 1995 fiscal year budget, the report concluded that most of these resources will be needed to maintain budget balance in the 1994 fiscal year.

With respect to each of the 1995 through 1997 fiscal years, the report noted the potential for a budget gap of approximately \$300 million greater than shown in the Financial Plan, primarily due to possible shortfalls in projected HHC revenues, greater than anticipated spending at BOE and overtime costs in the uniformed agencies. Additional risks for such years include the potential for increased recycling costs due to a recent court decision, lower than anticipated revenues from the renegotiation of certain Port Authority leases, and greater personnel costs, since the Financial Plan makes no provisions for wage increases after the expiration of current contracts. For the 1996 and 1997 fiscal years, the report identified the extension of the resident personal income tax surcharge as an additional risk.

With respect to the City's \$2.3 billion gap-closing program for the 1995 fiscal year, the report noted that approximately \$1.4 billion of the gap-closing initiatives must be considered as high risk because the initiatives are outside the Mayor's direct control to implement. The report noted that the City will need to obtain the approval and cooperation of the municipal labor unions, the City Actuary, certain State governmental agencies, public authorities or public benefit corporations which receive or may receive moneys from the City directly, indirectly or contingently, the City Council and the State and Federal governments, and that if the necessary approvals are not obtained, the City will have only a few months to develop alternative solutions.

On March 23, 1994, the staff of the Control Board issued its report on the Financial Plan. The report states that, while the Financial Plan moves the City in the discretion of structural balance, the Financial Plan has more risks and fewer details than are desirable and does not set forth contingency plans or other protections to assist the City if unknown but inevitable impediments emerge. With respect to the 1994 fiscal year, the report concludes that the budget is reliably balanced. However, for the 1995 fiscal year, the report notes that decisions will have to be made in the next modification to the Financial Plan in April 1994 whether to continue to include in the Financial Plan for the 1995 fiscal year revenues from proposed additional Federal and State aid, new Port Authority lease agreements and a proposed video lottery, funds from MAC for the severance program, and savings from employee health and pension cost reductions and tort reform. The report notes that all of these actions, which total \$1.2 billion, are outside the Mayor's

direct control and require the support of third parties. Risks identified in the report for the 1994 through 1997 fiscal years aggregate \$94 million, \$952 million, \$1.7 billion and \$1.9 billion, respectively, excluding any risk associated with the State takeover of certain Medicaid costs, the workforce reduction program and the reduction in health insurance and pension costs proposed in the Financial Plan.

The City requires certain amounts of financing for seasonal and capital spending purposes. The city since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. As of March 24, 1994, the City had issued \$1.75 billion of short-term obligations in fiscal year 1994 to finance the City's estimate of its seasonal cash flow needs for the 1994 fiscal year. Season financial requirements for the 1993 fiscal year decreased to \$1.4 billion from \$2.25 billion in the 1992 fiscal year.

The 1994 through 1997 Financial Plan is based on numerous assumptions, including the continuing improvement of the City's and the region's economy and a modest employment recovery during the calendar year 1994 and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The 1994-97 Financial Plan is subject to various uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual increases assumed for the 1994 through 1997 fiscal years; continuation of the 9% interest earnings assumptions for pension fund assets and current assumptions with respect to wages for City employees affecting the City's required pension fund contributions and the compensation of the City Actuary in accelerating recognition of recent pension investment returns which were in excess of the assumed investment returns; the willingness and ability of the State, in the context of the State's current financial condition, to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City, including the proposed State takeover of certain Medicaid costs and State mandate relief; the ability of HHC, BOE and other such agencies to maintain balanced budgets; the willingness of the Federal government to provide Federal aid; approval of the proposed continuation of the personal income tax surcharge and the State budgets; adoption of the City's budgets by the City Council in substantially the forms submitted by the Mayor; the receipt of revenues from the proposed video lottery in the amount projected in the Financial Plan; the ability of the City to implement proposed reductions in City in City personnel and other cost reduction initiatives which may require in certain cases the cooperation of the City's municipal unions and MAC and the success with which the City controls expenditures; savings for insurance costs in the amounts projected in the Financial Plan; additional expenditures that may be incurred due to the requirements of certain legislation requiring minimum levels of funding for education; the impact on the New York City region of the tax increases contained in President Clinton's economic plan; the impact on real estate tax revenues for the current downturn in the real estate market; the City's ability to market its securities successfully in the public credit markets; the level of funding required to comply with the Americans with Disabilities Act of 1990; and additional expenditures that may be incurred as a result of deterioration in the condition of the City's infrastructure. Certain of these assumptions have been questioned by the City Comptroller and other public officials.

The projections and assumptions contained in the 1994-97 Financial Plan are subject to revision which may involve substantial change, and no assurance can be given that these estimates and projections, which include actions which the City expects will be taken but which are not within the City's control, will be realized.

Changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financial requirements. The City's projections are subject to the City's ability to implement the necessary service and personnel reduction programs successfully. The Financial Plan contains substantially proposed expenditure cuts for the 1994 through 1997 fiscal years. The proposed expenditure reductions will be difficult to implement because of their size and substantial expenditure reductions already imposed on the City operations in recent years.

On November 6, 1990, the voters of Staten Island voted to establish a charter commission for the purpose of proposing a charter under which Staten Island would secede from the City to become a separate city of Staten Island. A referendum approving the charter proposed by such commission was approved by the voters of the borough of Staten Island on November 2, 1993. On March 1, 1994, the charter commission submitted to the State Legislature proposed legislation enabling Staten Island to separate from the City. The charter would take effect upon approval of such enabling legislation. Based upon the advice of the State Assembly's "home rule" counsel, The Speaker of The Assembly has determined that the City must issued a "home rule message", which requires a formal request of action by the Assembly by either (i) the Mayor and a majority of the City Council or (ii) two-thirds of the City Council, before the proposed legislation may be voted upon the Assembly. In addition, any such legislation may be subject to legal challenge and would require approval by the United States Department of Justice under the Federal Voting Rights Act. It cannot be determined as of the date of this Statement of Additional Information what the content of such proposed legislation will be, whether it will be enacted into law by the State Legislature, and if so, what legal challenges might be commenced contesting the validity of such legislation.

On November 2, 1993, the voters of the City approved a referendum amending the City Charter to provide that no person shall be eligible to be elected to or serve in the office of Mayor, Public Advocate, Comptroller, Borough President or Council member if that person had previously held such office for two or more full consecutive terms, unless one full term or more has elapsed since that person last held such office. This Charter amendment will apply only to terms of office commencing after January 1, 1994, and is subject to approval by the United States Department of Justice under the Federal Voting Rights Act.

The City is a defendant in a significant number of lawsuits. Such litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged constitutional violations, alleged torts, alleged breaches of contracts and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the proceedings and claims are not currently predictable, adverse determination in certain of them might have a material adverse effect upon the City's ability to carry out the 1994-97 Financial Plan. In the fiscal year ended on June 30, 1993, the City expended \$231 million for judgments and claims. The 1994-97 Financial Plan includes provisions for judgments and claims of \$242 million, \$243 million, \$253 million, and \$262 million for the 1994 through 1997 fiscal years, respectively. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 1993 amounted to approximately \$2.2 billion.

Moody's has rated the City's general obligation bonds Baal. S&P has rated the City's general obligation bonds A-. Such ratings reflect only the views of Moody's and S&P, from which an explanation of the significance of such ratios may be obtained. There is no assurance that such ratings will continue for any given period of

time or that they will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of the City's general obligation bonds.

In 1975, S&P suspended its A rating of City bonds. This suspension remained in effect until March 1981, at which time the City received an investment grade rating of BBB from S&P. On July 2, 1985, S&P revised its rating of City Bonds upward to BBB+ and on November 19, 1987, to A-. On February 11, 1991, Moody's lowered its rating on the City's general obligations bonds from A to Baa1. Moody's ratings of City bonds were revised in November 1981 from B (in effect since 1977) to Baa1, in November 1983 to Baa, in December 1985 to Baa1, in May 1988 to A and again in February 1991 to Baa1.

The Tax Reform Act of 1986 (the "Act") substantially revised provisions of prior law affecting the issuance and use of proceeds of certain tax-exempt obligations. A new definition of private activity bonds was applied to many types of bonds, including those which were industrial development bonds under prior law. Interest on private activity bonds is tax-exempt only if the bonds fall within certain defined categories of qualified private activity bonds and meet the requirements specified in those respective categories. The Act generally did not change the tax treatment of bonds issued to finance governmental operations. The changes generally apply to bonds issued after August 15, 1986, with certain transitional rule exemptions. As used in this Prospectus, the term "private activity bonds" also includes industrial development revenue bonds issued pursuant to the Internal Revenue Code of 1986, as amended. (the "Code"). The portion of dividends paid by the Fund that is attributable to interest on certain private activity bonds is an item of tax preference for purposes of the federal individual and corporate alternative minimum taxes.

ADDITIONAL PURCHASE AND REDEMPTION INFORMATION

In General

Information on how to purchase and redeem Fund shares, and how such shares are priced, is included in the Prospectuses. The issuance of shares is recorded on the books of the Fund, but share certificates are not issued.

The Fund offers its shares to the public on a continuous basis. Purchases of Select Shares of the Fund must be made either through a brokerage account maintained through Lehman Brothers or with a broker that clears securities transactions through Lehman Brothers on a fully disclosed basis (an "Introducing Broker"). Purchases of Global Clearing Shares of the Fund may be made only through an Introducing Broker.

Under the 1940 Act, the Fund may suspend the right of redemption or postpone the date of payment upon redemption for any period during which the New York Stock Exchange ("Exchange") is closed, other than customary weekend and holiday closings, or during which trading on the Exchange is restricted, or during which (as determined by the SEC by rule or regulation) an emergency exists as a result of which disposal or valuation of portfolio securities is not reasonably practicable, or for such other periods as the SEC may permit. (The Fund may also suspend or postpone the recordation of the transfer of its shares upon the occurrence of any of the foregoing conditions). The Fund is obligated to redeem shares solely in cash up to \$250,000 or 1% of the Fund's net asset value, whichever is less, for any one shareholder within a 90-day period. Any redemption beyond this amount will also be in cash unless the Board of Directors determines that conditions exist which make payment of redemption proceeds wholly in cash unwise or undesirable. In such a case, the Fund may make payment

wholly or partly in readily marketable securities or other property, valued in the same way as the Fund determines net asset value. See "Net Asset Value" below for an example of when such redemption or form of payment might be appropriate. Redemption in kind is not as liquid as a cash redemption. Shareholders who receive a redemption in kind may incur transaction costs, if they sell such securities or property, and may receive less than the redemption value of such securities or property upon sale, particularly where such securities are sold prior to maturity.

The Fund normally transmits payment of redemption proceeds for credit to the shareholder's account at Lehman Brothers or the Introducing Broker (in the case of Global Clearing Shares, to the Introducing Broker) on the business day following receipt of the redemption request but, in any event, payment will be made within seven days thereafter.

The Prospectus describes special redemption procedures for certain shareholders who engage in purchases of securities through Lehman Brothers or an Introducing Broker, under which Fund shares are redeemed automatically to satisfy debit balances arising in the shareholder's account on the settlement date of other securities transactions. A shareholder may choose not to redeem Fund shares automatically by notifying Lehman Brothers or the Introducing Broker, and by making payment for securities purchased by the settlement date, which is usually five business days after the trade date.

Net Asset Value

The Prospectus discusses the time at which the net asset value of shares of each class of the Fund is determined for purposes of sales and redemptions. The following is a description of the procedures used by the Fund in valuing its assets.

The valuation of the Fund's portfolio securities is based upon their amortized cost, which does not take into account unrealized capital gains or losses. Amortized cost valuation involves initially valuing an instrument at its cost and, thereafter, assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. While this method provides certainty in valuation, it may result in periods during which value, as determined by amortized cost, is higher or lower than the price the Fund would receive if it sold the instrument.

Pursuant to the 1940 Act, the Fund must maintain a dollar-weighted average portfolio maturity of 90 days or less, purchase only instruments having remaining maturities of thirteen months or less and invest only in securities determined by LBGAM to be of eligible quality with minimal credit risks.

Pursuant to Rule 2a-7, the Company's Board of Directors also has established procedures designed to stabilize, to the extent reasonably possible, the price per share of each class of the Fund as computed for the purpose of sales and redemptions at \$1.00. Such procedures include review of the Fund's portfolio holdings by the Board of Directors, at such intervals as it may deem appropriate, to determine whether the Fund's net asset value calculated by using available market quotations or market equivalents deviates from \$1.00 per share based on amortized cost.

Rule 2a-7 also provides that the extent of any deviation between the Fund's net asset value based upon available market quotations or market equivalents and the \$1.00 per share net asset value based on amortized cost must be examined by the Board of Directors. In the event the Board of Directors determines that a deviation exists which may result in material dilution or other unfair results to investors

or existing shareholders, pursuant to Rule 2a-7 the Board of Directors must cause the Fund to take such corrective action as the Board of Directors regards as necessary and appropriate, including: selling portfolio instruments prior to maturity to realize capital gains or losses or to shorten average portfolio maturity; withholding dividends or paying distributions from capital or capital gains; redeeming shares in kind; or establishing a net asset value per share by using available market quotations.

EXCHANGE PRIVILEGE

Holders of each class of the Fund's Shares may exchange all or part of their Shares for shares of the same class of shares of certain other funds in the Lehman Brothers Group of Funds, as indicated in the Prospectuses, to the extent such shares are offered for sale in the shareholder's state of residence. There currently is no charge for this service, and exchanges are made on the basis of relative net asset value per share at the time of exchange.

The exchange privilege enables holders of the Fund's Shares to acquire shares in a fund with different investment objectives when they believe that a shift between funds is an appropriate investment decision. This privilege is available to shareholders residing in any state in which the fund shares being acquired may legally be sold. Prior to any exchange, the shareholder should obtain and review a copy of the current prospectus of each fund into which an exchange is to be made. Prospectuses may be obtained from any Lehman Brothers Investment Representative.

Exercise of the exchange privilege is treated as a sale and repurchase for federal income tax purposes and, depending on the circumstances, a short- or long-term capital gain or loss may be realized. The price of the shares of the fund into which shares are exchanged will be the new cost basis for tax purposes.

Upon receipt of proper instructions and all necessary supporting documents, the Fund's Shares submitted for exchange are redeemed at the then-current net asset value and the proceeds immediately invested in shares of the appropriate class of the fund being acquired. Lehman Brothers reserves the right to reject any exchange request. The exchange privilege may be modified or terminated at any time after notice to shareholders.

MANAGEMENT OF THE FUND

Directors and Officers

The Company's directors and executive officers, their addresses, principal occupations during the past five years and other affiliations are as follows:

<TABLE>
<CAPTION>

Name and Address

Position with the
Company
Principal Occupation
During Past 5 Years and
Other Affiliations

<S>
<C>
<C>

Kirk Hartman (1)
3 World Financial Center

New York, New York 10285

Age: _____
Chairman of the
Board and Director
Managing Director,
Lehman Brothers.

Burt N. Dorsett (2)(3)
201 East 62nd Street
New York, New York 10021

Age: _____
Director
Managing Partner,
Dorsett McCabe Capital
Management, Inc.;
Director, Research
Corporation
Technologies; formerly
President, Westinghouse
Pension Investments
Corporation; formerly
Executive Vice
President and Trustee,
College Retirement
Equities Fund, Inc.;
formerly Investment
Officer, University of
Rochester.

</Table

</TABLE>
<TABLE>
<CAPTION>

Name and Address

Position with the
Company
Principal Occupation
During Past 5 Years and
Other Affiliations

<S>
<C>
<C>

Kathleen C. Holmes(2)(3)
Wharton Financial
Institutions Center
3620 Locust Walk
3301 Steinberg Hall
Dietrich Hall
Philadelphia,
Pennsylvania 19104-6367

Age:
Director
Managing Director,
Wharton School
Financial Institutions
Center, University of

Pennsylvania; Senior
Partner and Management
Consultant, Furash &
Company.

John N. Hatsopoulos(2) (3)
Thermo Electron Corp.
81 Wyman Street
Waltham, Massachusetts
02254
Age:
Director
Executive Vice
President and Chief
Financial Officer,
Thermo Electron Corp.

Andrew Gordon
3 World Financial Center
New York, New York 10285
Age:
President
Managing Director,
Lehman Brothers.

John M. Winters
3 World Financial Center
New York, New York 10285
Age:
Vice President
Senior Vice President,
Lehman Brothers.

Michael Kardok
53 State Street
Boston, Massachusetts
02109
Age:
Treasurer and Chief
Financial Officer
Vice President, The
Shareholder Services
Group, Inc.

Patricia L. Bickimer
53 State Street
Boston, Massachusetts

02109
Age:
Secretary
Vice President and
Associate General
Counsel, The
Shareholder Services
Group, Inc.

</TABLE>

-
1. Director considered by the Company to be an "interested person" of the Company as defined in the 1940 Act.
 2. Audit Committee Member.
 3. Nominating Committee Member.

Three directors of the Company, Messrs. Hartman and Dorsett and Ms. Holmes, serve as directors or trustees of other investment companies for which Lehman Brothers, LBGAM or one of their affiliates serves as distributor or investment adviser.

No employee of Lehman Brothers, LBGAM or The Shareholders Services Group, Inc. ("TSSG") receives any compensation from the Company for acting as an officer or director of the Company. The Company pays each director who is not a director, officer or employee of Lehman Brothers, LBGAM or TSSG or any of their affiliates, a fee of \$20,000 per annum plus \$500 per meeting attended and reimburses them for travel and out-of-pocket expenses.

By virtue of the responsibilities assumed by Lehman Brothers, LBGAM, TSSG and their affiliates under their respective agreements with the Company, the Company itself requires no employees in addition to its officers.

The following table sets forth certain information regarding the compensation of the Company's directors during the fiscal period ended July 31, 1994. No executive officer or person affiliated with the Company received compensation from the Company during the fiscal period ended July 31, 1994 in excess of \$60,000.

COMPENSATION TABLE

<TABLE>
<CAPTION>

Name of
Person and
Position

Aggregate
Compensat
ion
from the
Company

Pension or
Retirement
Benefits
Accrued as

Part of
Company
Expenses

Estimated
Annual
Benefits
Upon
Retirement

Total
Compensation
From the
Company
and Fund
Complex
Paid to
Directors*

<S>
<C>
<C>
<C>
<C>

Kirk Hartman,
Chairman of
the Board
0
0
N/A
\$0 (1)

Kathleen
Holmes,
Director
\$
0
N/A
\$ (2)

John
Hatsopolous,
Director
\$
0
N/A
\$ (1)

Burt N.
Dorsett,
Director
\$
0
N/A
\$ (2)

</TABLE>

* Represents the total compensation paid to such persons by all investment companies (including the Company) from which such person received compensation during the fiscal period ended July 31, 1994 that are considered part of the same "fund complex" as the Company because they have common or affiliated investment advisers. The parenthetical number represents the number of such investment companies, including the Company.

Investment Adviser

LBGAM serves as investment adviser to the Fund pursuant to a written investment advisory agreement approved by the Company's Board of Directors, including a majority of the directors who are not "interested persons" (as defined in the 1940 Act) of the Company or LBGAM, on February 1, 1995. The services provided by LBGAM under the advisory agreement and the fees paid to LBGAM are described in the Prospectuses. LBGAM bears all expenses in connection with the performance of its services and pays the salaries of all officers or employees who are employed by both it and the Company. Unless sooner terminated, the advisory agreement will continue in effect until January 31, 1997 and from year to year thereafter if such continuance is approved at least annually by the Company's Board of Directors or by a vote of a majority (as defined under "Additional Description Concerning Fund Shares") of the outstanding shares of the Fund and, in either case, by a majority of the directors who are not parties to such agreement or "interested persons" of any party by votes cast in person at a meeting called for such purpose. The advisory agreement will be terminable by the Company or LBGAM on 60 days' written notice, and will terminate immediately in the event of its assignment.

Administrator

As the Fund's administrator, TSSG has agreed to provide the following services: (i) assist generally in supervising the Fund's operations, providing and supervising the operation of an automated data processing system to process purchase and redemption orders, providing information concerning the Fund to its shareholders of record, handling shareholder problems, supervising the services of employees whose principal responsibility and function is to preserve and strengthen shareholder relations; (ii) prepare reports to the Fund's shareholders and prepare tax returns and reports to and filings with the SEC; (iii) compute the net asset value per share of the Fund; (iv) provide the services of certain persons who may be elected as directors or appointed as officers of the Company by the Board of Directors; and (v) maintain the registration or qualification of the Fund's shares for sale under state securities laws.

Distributor and Plan of Distribution

Lehman Brothers acts as distributor of the Fund's shares. The Fund's shares are sold on a continuous basis by Lehman Brothers as agent, although Lehman Brothers is not obliged to sell any particular amount of shares. The distributor pays the cost of printing and distributing prospectuses to persons who are not shareholders of the Fund (excluding preparation and printing expenses necessary for the continued registration of the Fund's shares) and of preparing, printing and distributing all sales literature.

Rule 12b-1 (the "Rule") adopted by the SEC under the 1940 Act provides, among other things, that an investment company may bear expenses of distributing its shares only pursuant to a plan adopted in accordance with the Rule. The Company's Board of Directors has adopted such a plan with respect to the Fund (the "Plan of Distribution"). The Board of Directors believes that there is a reasonable likelihood that the Plan of Distribution will benefit the Fund and its shareholders.

A quarterly report of the amounts expended with respect to each class of the Fund under the Plan of Distribution, and the purposes for which such expenditures were incurred, must be made to the Board of Directors for its review. In addition, the Plan of Distribution provides that it may not be amended with respect to a class of the Fund to increase materially the costs which may be borne for distribution pursuant to the Plan of Distribution without the approval of shareholders of that class, and that other material amendments of the Plan of Distribution must be approved by the Board of Directors, and by the Directors who are neither "interested person" (as defined in the 1940 Act) of the Company nor have any direct or indirect financial interest in the operation of the Plan of Distribution or any related agreements, by vote cast in person at a meeting called for the purpose of considering such amendments. The Plan of Distribution and any related agreements are subject to annual approval by such vote cast in person at a meeting called for the purpose of voting on the Plan. The Plan of Distribution may be terminated with respect to a class of the Fund at any time by vote of a majority of the Directors who are not "interested persons" and have no direct or indirect financial interest in the operation of the Plan of Distribution or in any related agreement or by vote of a majority of the shares of that class.

Custodian and Transfer Agent

Boston Safe Deposit and Trust Company ("Boston Safe"), an indirect wholly owned subsidiary of Mellon Bank Corporation, is located at One Boston Place, Boston, Massachusetts 02108, and serves as the Company's custodian pursuant to a custody agreement. Under the custody agreement, Boston Safe holds the Fund's portfolio securities and keeps all necessary accounts and records. For its services, Boston Safe receives a monthly fee based upon the month-end market value of securities held in custody and also receives securities transaction charges, including out-of-pocket expenses. The assets of the Company are held under bank custodianship in compliance with the 1940 Act.

TSSG, a subsidiary of First Data Corporation, is located at 53 State Street, Boston, Massachusetts 02019, and serves as the Company's transfer agent. Under the transfer agency agreement, TSSG maintains the shareholder account records for the Company, handles certain communications between shareholders and the Company and distributes dividends and distributions payable by the Company and produces statements with respect to account activity for the Company and its shareholders. For these services, TSSG receives a monthly fee computed separately for each class of the Fund's shares on the basis of the number of shareholder accounts that it maintains for the Company during the month and is reimbursed separately by each class for out-of-pocket expenses.

Expenses

The Fund's expenses include taxes, interest, fees and salaries of the Company's Directors and Officers who are not directors, officers or employees of the Fund's service contractors, SEC fees, state securities qualification fees, costs of preparing and printing prospectuses for regulatory purposes and for distribution to investors, advisory, sub-advisory and administration fees, charges of the custodian, transfer and dividend disbursing agent, certain insurance premiums, outside auditing and legal expenses, costs of independent pricing service, costs of investor reports and shareholder meetings and any extraordinary expenses. The Fund also pays for brokerage fees and commissions (if any) in connection with the purchase and sale of portfolio securities. Fund expenses are allocated to a particular class of Fund shares based on the expenses identifiable to the class or the relative net assets of the class and other classes of Fund shares. LBGAM and TSSG have agreed, that if, in any fiscal year, the expenses borne by the Fund exceed the applicable expense limitations imposed by the securities regulations of any state in which shares of the Fund are registered or qualified for sale to the public, they will reimburse the Fund any excess to the extent required by such regulations. Unless otherwise required by law, such reimbursement would be accrued and paid on the same basis that the advisory and administration fees are accrued and paid by the Fund. To the Fund's knowledge, of the expense limitations in effect on the date of this Statement of Additional Information, none is more restrictive than 2-1/2% of the first \$30 million of the Fund's average annual net assets, 2% of the next \$70 million of the average annual net assets and 1-1/2% of the remaining average annual net assets.

ADDITIONAL INFORMATION CONCERNING TAXES

The following discussion is only a brief summary of certain additional tax considerations affecting the Fund and its shareholders. No attempt is made to present a detailed explanation of all federal, state and local tax concerns, and the discussion set forth here and in the Prospectuses is not intended as a substitute for careful tax planning. Investors are urged to consult their own tax adviser with specific questions relating to federal, state or local taxes.

In General

The Fund intends to qualify as a regulated investment company (a "RIC") under Subchapter M of the Code and to continue to so qualify. Qualification as a RIC requires, among other things, that the Fund: (a) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in such stocks or securities; (b) derive less than 30% of its gross income in each taxable year from the sale or other disposition of any of the following held for less than three months: (i) stock or securities, (ii) options, futures, or forward contracts, or (iii) foreign currencies (or foreign currency options, futures or forward contracts) that are not directly related to its principal business of investing in stock or securities (or options and futures with respect to stocks or securities) (the "30% limitation"); and (c) diversify its holdings so that, at the end of each quarter of each taxable year, (i) at least 50% of the market value of the Fund's assets is represented by cash, cash items, U.S. Government Securities, securities of other RICs and other securities with such older securities limited, in respect of any issuer, to an amount not greater than 5% of the value of the Fund's assets and 10% of the

outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities (other than U.S. Government Securities or the securities of other RICs) of any one issuer.

Investors should consider the tax implications of buying shares just prior to distribution. Although the price of shares purchased at that time may reflect the amount of the forthcoming distribution, those purchasing just prior to a distribution will receive a distribution which will nevertheless be taxable to them.

Gain or loss, if any, on the sale or other disposition of shares of the Fund will generally result in capital gain or loss to shareholders. Generally, a shareholder's gain or loss will be a long-term gain or loss if the shares have been held for more than one year. If a shareholder sells or otherwise disposes of a share of the Fund before holding it for more than six months, any loss on the sale or other disposition of such shares shall be treated as a long-term capital loss to the extent of any capital gain dividends received by the shareholder with respect to such share, or shall be disallowed to the extent of any exempt-interest dividend. Currently, the maximum federal income tax rate imposed on individuals with respect to net realized long-term capital gains is limited to 28%, whereas the maximum federal income tax rate imposed on individuals with respect to net realized short-term capital gains (which are taxed at the same rates as ordinary income) is 39.6%.

A 4% non-deductible excise tax is imposed on RICs that fail currently to distribute an amount equal to specified percentages of their ordinary taxable income and capital gain net income (excess of capital gains over capital losses). The Fund intends to make sufficient distributions or deemed distributions of its ordinary taxable income and any capital gain net income prior to the end of each calendar year to avoid liability for this exercise tax.

If for any taxable year the Fund does not qualify for tax treatment as a RIC, all of the Fund's taxable income will be subject to tax at regular corporate rates without any deduction for distributions to Fund shareholders. In such event, dividend distributions to shareholders would be taxable as ordinary income to the extent of the Fund's earnings and profits, and would be eligible for the dividends received deduction in the case of corporate shareholders.

The Fund will be required in certain cases to withhold and remit to the U.S. Treasury 31% of taxable dividends or 31% of gross proceeds realized upon sale paid to its shareholders who have failed to provide a correct tax identification number in the manner required, who are subject to backup withholding by the Internal Revenue Services for failure properly to include on their return payments of taxable interest or dividends, or who have failed to certify to the Fund that they are not subject to backup withholding when required to do so or that they are "exempt recipients."

The Fund intends to qualify to pay "exempt-interest dividends," as that term is defined in the Code, by holding at the end of each quarter of its taxable year at least 50% of the value of its total assets in the form of obligations described in section 103(a) of the Code. The Fund's policy is to pay in each taxable year exempt-interest dividends equal at least 90% of the Fund's interest from tax-exempt obligations net of certain deductions. Except as discussed below, exempt-interest dividends will be exempt from regular federal income tax.

Although exempt-interest dividends may be excluded from a shareholder's gross income for federal income tax purposes, a portion of the exempt-interest dividends may be a specific preference item

for purposes of determining the shareholder's liability (if any) under the federal individual and corporate alternative minimum tax provisions of the Code. Exempt-interest dividends will constitute a specific preference item for purposes of the federal alternative minimum tax to the extent that such dividends are derived from certain types of private activity bonds issued after August 7, 1986. In addition, all exempt-interest dividends will be a component of the "adjusted current earnings" adjustment item for purposes of the federal corporate alternative minimum tax. Moreover, the receipt of dividends from the Fund may increase a corporate shareholder's liability for environmental taxes under Section 59A of the Code and a foreign corporate shareholder's liability under the branch profits tax, and may also affect the federal tax liability of certain Subchapter S corporations and insurance companies. Furthermore, the receipt of exempt-interest dividends may be a factor in determining the extent to which a shareholder's Social Security benefits are taxable.

The exemption of interest income for regular federal income tax purposes may not result in similar exemptions under the tax law of state and local taxing authorities. In general, a state exempts from state income tax only interest earned on obligations issued by that state or its political subdivisions and instrumentalities.

Interest on indebtedness incurred by a shareholder to purchase or carry the Fund's shares is not deductible for federal income tax purposes if the Fund distributes exempt-interest dividends during the shareholder's taxable year.

While the Fund does not expect to realize significant long-term capital gains, any net realized long-term capital gains will be distributed at least annually. The Fund will generally have no tax liability with respect to such gains, and the distributions, whether paid in cash or reinvested in additional shares, will be taxable to the Fund's shareholders as long-term capital gains, regardless of how long a shareholder has held the Fund's shares. Such distributions will be designated as a capital gain dividend in a written notice mailed by the Fund to its shareholders not later than 60 days after the close of the Fund's taxable year.

Similarly, while the Fund does not expect to earn significant investment company taxable income, taxable income earned by the Fund will be distributed to its shareholders. In general, the Fund's investment company taxable income will be its taxable income (for example, any short-term capital gains) subject to certain adjustments and excluding the excess of any net long-term capital gain for the taxable year over the net short-term capital loss, if any, for such year. The Fund will be taxed on any undistributed investment company taxable income of the Fund. To the extent such income is distributed by the Fund, it will be taxable to the Fund's shareholders as ordinary income, whether paid in cash or reinvested in additional shares.

DIVIDENDS

Net income for dividend purposes consists of (i) interest accrued and original discount earned on the Fund's assets for the applicable dividend period, plus (ii) the amortization of market discount and minus amortization of market premium on such assets, and less (iii) accrued expenses directly attributable to the Fund, and the general expenses (e.g., legal, accounting and Directors' fees) of the Company prorated to the Fund on the basis of its relative net assets. The amortization of market discount on the Fund's assets is not included in the calculation of net income. Any realized short-term capital gains may also be distributed as dividends to Fund shareholders.

The Company uses its best efforts to maintain the net asset value per share of the Fund at \$1.00. As a result of a significant expense or realized or unrealized loss incurred by the Fund, it is possible that the Fund's net asset value per share may fall below \$1.00.

ADDITIONAL YIELD INFORMATION

The "yields", "effective yields" and "tax-equivalent yields" are calculated separately for each class of shares of the Fund. The seven day yield for each class of shares in the Fund is calculated by determining the net change in the value of a hypothetical preexisting account in the Fund having a balance of one share of the class at the beginning of the period, dividing the net change by the value of the account at the beginning of the period to obtain the base period return, and multiplying the base period return by 365/7. The net change in the value of an account in the Fund includes the value of additional shares purchased with dividends from the original share and dividends declared on the original share and any such additional shares, net of all fees charged to all shareholder accounts in proportion to the length of the base period and the Fund's average account size, but does not include gains and losses or unrealized appreciation and depreciation. In addition, the effective annualized yield may be computed on a compounded basis (calculated as described above) by adding 1 to the base period return, raising the sum to a power equal to 365/7, and subtracting 1 from the result. A tax-equivalent yield for a class of the Fund's shares is computed by (a) dividing the portion of the yield for such class (calculated as above) that is exempt from federal income tax and New York State and New York City personal income taxes by one minus a stated combined federal, New York State and New York City income tax rate; (b) dividing that portion of the Fund's yield (calculated as above) that is exempt from federal income tax only by one minus a stated federal income tax rate; and (c) adding the figures resulting from (a) and (b) above to that portion, if any, of the yield that is not exempt from federal income tax. Similarly, based on the calculations described above, 30-day (or one-month) yields, effective yields and tax-equivalent yields may also be calculated.

From time to time, in advertisements or in reports to shareholders, the Fund's yield may be quoted and compared to that of other money market funds or accounts with similar investment objectives and to bond or other relevant indices. For example, the yield of the Fund may be compared to the IBC/Donoghue's Money Fund Average, which is an average compiled by IBC/Donoghue's MONEY FUND REPORT of Holliston, MA 01746, a widely recognized independent publication that monitors the performance of money market funds, or to the average yields reported by the Bank Rate Monitor from money market deposit accounts offered by the 50 leading banks and thrift institutions in the top five standard metropolitan statistical areas.

Yield will fluctuate, and any quotation of yield should not be considered as representative of the future performance of the Fund. Since yields fluctuate, yield data cannot necessarily be used to compare an investment in the Fund's shares with bank deposits, savings accounts and similar investment alternatives which often provide an agreed or guaranteed fixed yield for a stated period of time. Shareholders should remember that performance and yield are generally functions of the kind and quality of the investments held in a portfolio, portfolio maturity, operating expenses and market conditions.

ADDITIONAL INFORMATION CONCERNING FUND SHARES

As used in this Statement of Additional Information and the Prospectuses, a "majority of the outstanding shares", when referring to the approvals to be obtained from shareholders in connection with

matters affecting any particular portfolio of the Company (such as the Fund) (e.g., approval of investment advisory contracts) or any particular class (e.g., approval of plans of distribution) means the lesser of (1) 67% of the shares of that particular or class, as appropriate, represented at a meeting at which the holders of more than 50% of the outstanding shares of such portfolio or class, as appropriate, are present in person or by proxy, or (2) more than 50% of the outstanding shares of such portfolio or class, as appropriate.

The By-Laws of the Company provide that the Company shall not be required to hold an annual meeting of shareholders in any year in which the election of directors to the Company's Board of Directors is not required to be acted upon under the 1940 Act. The law under certain circumstances provides shareholders with the right to call for a meeting of shareholders to consider the removal of one or more directors. To the extent required by law, the Company will assist in shareholder communication in such matters.

Shares of a class of a particular portfolio of the Company (such as the Fund) are entitled to such dividends and distributions out of the assets belonging to that class as are declared in the discretion of the Company's Board of Directors. In determining the net asset value of a class of a portfolio, assets belonging to a particular Fund are credited with a proportionate share of any general assets of the Company not belonging to the class of a portfolio and are charged with the direct liabilities in respect of that class of the portfolio and with a share of the general liabilities of the Company which are normally allocated in proportion to the relative asset values of the respective classes of the portfolios of the Company at the time of allocation.

In the event of the liquidation or dissolution of the Company, shares of each class of a portfolio are entitled to receive the assets attributable to them that are available for distribution, and a proportionate distribution, based upon the relative net assets of the classes of each portfolio, of any general assets not attributable to a portfolio of the Company that are available for distribution. Shareholders are not entitled to any preemptive rights.

Subject to the provisions of the Company's Articles of Incorporation, determinations by the Board of Directors as to the direct and allocable liabilities, and the allocable portion of any general assets of the Company, with respect to a particular portfolio or class are conclusive.

COUNSEL

Simpson Thacher & Bartlett (a partnership which includes professional corporations), 425 Lexington Avenue, New York, New York 10017-3594, serves as counsel to the Company.

AUDITORS

Ernst & Young LLP acts as the Fund's independent auditors and has offices at 200 Clarendon Street, Boston, Massachusetts 02116-5072.

APPENDIX

DESCRIPTION OF RATINGS

Commercial Paper and Bank Money Market Instruments

A Standard & Poor's Ratings Group commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. The

following summarizes the two highest rating categories used by Standard & Poor's Ratings Group for commercial paper:

A-1 - Issue's degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted "A-1+."

A-2 - Issue's capacity for timely payment is satisfactory. However, the relative degree of safety is not as high as for issues designated "A-1."

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of 9 months. The following summarizes the two highest rating categories used by Moody's for commercial paper:

Prime-1 - Issuer or related supporting institutions are considered to have a superior capacity for repayment of short-term promissory obligations. Principal repayment capacity will normally be evidenced by the following characteristics: leading market positions in well-established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; and well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2 - Issuer or related supporting institutions are considered to have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternative liquidity is maintained.

The two highest rating categories of Duff & Phelps for investment grade commercial paper are "Duff 1" and "Duff 2." Duff & Phelps employs three designations, "Duff 1+," "Duff 1" and "Duff 1-," within the highest rating category. The following summarizes the two highest rating categories used by Duff & Phelps for commercial paper:

Duff 1+ - Debt possesses highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below risk-free U.S. Treasury short-term obligations.

Duff 1 - Debt possesses very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

Duff 1- - Debt possesses high certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

Duff 2 - Debt possesses good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

Fitch short-term ratings apply to debt obligations that are payable on demand or have original maturities of up to three years. The two highest rating categories of Fitch for short-term

obligations are "F-1" and "F-2." Fitch employs two designations, "F-1+" and "F-1," within the highest rating category. The following summarizes the two highest rating categories used by Fitch for short-term obligations:

F-1+ - Securities possess exceptionally strong credit quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

F-1 - Securities possess very strong credit quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+."

F-2 - Securities possess good credit quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as the "F-1+" and "F-1" categories.

Fitch may also use the symbol "LOC" with its short-term ratings to indicate that the rating is based upon a letter of credit issued by a commercial bank.

Thomson BankWatch commercial paper ratings assess the likelihood of an untimely payment of principal or interest of debt having a maturity of one year or less which is issued by a bank holding company or an entity within the holding company structure. The following summarizes the two highest ratings used by Thomson BankWatch:

TBW-1 - This designation represents Thomson BankWatch's highest rating category and indicates a very high degree of likelihood that principal and interest will be paid on a timely basis.

TBW-2 - This designation indicates that while the degree of safety regarding timely payment of principal and interest is strong, the relative degree of safety is not as high as for issues rated "TBW-1."

IBCA assesses the investment quality of unsecured debt with an original maturity of less than one year which is issued by bank holding companies and their principal bank subsidiaries. The highest rating category of IBCA for short-term debt is "A." IBCA employs two designations, "A1+" and "A1," within the highest rating category. The following summarizes the two highest rating categories used by IBCA for short-term debt ratings:

A1+ - Obligations are supported by the highest capacity for timely repayment.

A1 - Obligations are supported by a strong capacity for timely repayment.

A2 - Obligations are supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions.

Note: Various NRSROs utilize rankings within rating categories indicated by a + or -. The Funds, in accordance with industry practice, recognize such rankings within categories as gradations, viewing the example S&P's ratings of A-1 + and A-1 as being in S&P's highest rating category.

Corporate Bonds

S&P. Bonds rated AAA have the highest rating assigned by S&P to a debt obligation. Capacity to pay interest and repay principal is extremely strong. Bonds rated AA have a strong capacity to pay interest and repay principal and differ from the highest rated issues only in a small degree.

Moody's. Bonds rated Aaa by Moody's are judged to be of the best quality. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. Bonds rated Aa are judged to be of high quality by all standards. They are rated lower than the best bonds because the margins of protection may not be as large or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

IBCA. Bonds rated AAA by IBCA are obligations for which there is the lowest expectation of investment risk. Capacity for timely repayment of principal and interest is substantial such that adverse changes in business, economic or financial conditions are unlikely to increase investment risk significantly. Bonds rated AA are obligations for which there is a very low expectation of investment risk. Capacity for timely repayment of principal and interest is substantial. Adverse changes in business, economic or financial conditions may increase investment risk, albeit not very significantly.

Fitch. Bonds rated AAA by Fitch are considered to be investment grade and of the highest quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events. Bonds rated AA are considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA.

Duff & Phelps. Bonds rated AAA by Duff & Phelps are deemed to be of the highest credit quality: the risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt. AA indicates high credit quality: protection factors are strong, and risk is modest but may vary slightly from time to time because of economic conditions.

Municipal Long-Term Debt Ratings

The following summarizes the two highest ratings used by Standard & Poor's Ratings Group for municipal long-term debt:

AAA - This designation represents the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.

AA - Debt is considered to have a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.

PLUS (+) or MINUS (-) _ The rating of "AA" may be modified by the addition of a plus or minus sign to show relative standing within this rating category.

The following summarizes the two highest ratings used by Moody's for municipal long-term debt:

Aaa - Bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa - Bonds are judged to be of high quality by all standards. Together with the "Aaa" group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in "Aaa" securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in "Aaa" securities.

Moody's applies numerical modifiers 1, 2 and 3 in generic classification of "Aa" in its bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks at the lower end of its generic rating category.

The following summarizes the two highest ratings used by Duff & Phelps for municipal long-term debt:

AAA - Debt is considered to be of the highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.

AA - Debt is considered of high credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

To provide more detailed indications of credit quality, the "AA" rating may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within this rating category.

Con. (- - -) - Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

The following summarizes the two highest ratings used by Fitch for municipal bonds:

AAA - Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA - Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA." Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is

generally rated "F-1+."

To provide more detailed indications of credit quality, the Fitch rating of "AA" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within this rating category.

Thomson BankWatch assesses the likelihood of an untimely repayment of principal or interest over the term to maturity of long-term debt and preferred stock which are issued by United States commercial banks, thrifts and non-bank banks; non-United States banks; and broker-dealers. The following summarizes the two highest rating categories used by Thomson BankWatch for long-term debt ratings:

AAA - This designation represents the highest category assigned by Thomson BankWatch to long-term debt and indicates that the ability to repay principal and interest on a timely basis is very high.

AA - This designation indicates a superior ability to repay principal and interest on a timely basis with limited incremental risk versus issues rated in the highest category.

PLUS (+) or MINUS (-) - The ratings may include a plus or minus sign designation which indicates where within the respective category the issue is placed.

IBCA assesses the investment quality of unsecured debt with an original maturity of more than one year which is issued by bank holding companies and their principal bank subsidiaries. The following summarizes the two highest rating categories used by IBCA for long-term debt ratings:

AAA - Obligations for which there is the lowest expectation of investment risk. Capacity for timely repayment of principal and interest is substantial such that adverse changes in business, economic or financial conditions are unlikely to increase investment risk significantly.

AA - Obligations for which there is a very low expectation of investment risk. Capacity for timely repayment of principal and interest is substantial. Adverse changes in business, economic or financial conditions may increase investment risk albeit not very significantly.

IBCA may append a rating of plus (+) or minus (-) to a rating to denote relative status within these rating categories.

Municipal Note Ratings

A Standard & Poor's Ratings Group rating reflects the liquidity concerns and market access risks unique to notes due in three years or less.

The following summarizes the two highest rating categories used by Standard & Poor's Ratings Group for municipal notes:

SP-1 - The issuers of these municipal notes exhibit very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given a plus (+) designation.

SP-2 - The issuers of these municipal notes exhibit satisfactory capacity to pay principal and interest.

Moody's ratings for state and municipal notes and other

short-term loans are designated Moody's Investment Grade ("MIG") and variable rate demand obligations are designated Variable Moody's Investment Grade ("VMIG"). Such ratings recognize the differences between short-term credit risk and long-term risk. The following summarizes the two highest ratings used by Moody's Investors Service, Inc. for short term notes:

MIG-1/VMIG-1 - Loans bearing this designation are of the best quality, enjoying strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

MIG-2/VMIG-2 - Loans bearing this designation are of high quality, with margins of protection ample although not so large as in the preceding group.

Duff & Phelps and Fitch use the short-term ratings described under Commercial Paper and Bank Money Market Instruments for municipal notes.

PART C. OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(a) Financial Statements:

Included in Part C

Consent and Opinion of Independent Auditors will be filed by amendment.

(b) Exhibits:

<TABLE>

<CAPTION>

Exhibit
Number

Description

<S>

<C>

<C>

1(a)

- --

Registrant's Amended Articles of Incorporation and Certificate of Correction of Amended Articles of Incorporation are incorporated by reference to Exhibit 1(a) to Post-Effective Amendment No. 2, filed January 14, 1994 ("Post-Effective Amendment No. 2") to the Registrant's Registration Statement on Form N-1A, filed May 6, 1993, Registration Nos. 33-62312 and 811-7706 (the "Registration Statement").

1 (b)

- --

Articles Supplementary to Registrant's Articles of Incorporation dated March 15, 1994 is incorporated by reference to Exhibit 1(b) to Post-Effective Amendment No. 3, filed September 8, 1994 ("Post-Effective Amendment No. 3").

1 (c)

- --

Articles Supplementary to Registrant's Articles of Incorporation, dated July 27, 1994, is incorporated by reference to Exhibit 1(c) to Post-Effective Amendment No. 3.

</TABLE>

<TABLE>

<S>

<C>

<C>

1 (d)

- --

Form of Articles Supplementary to Registrant's Articles of Incorporation with respect to Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund, Lehman Brothers International Equity Fund, Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund and Lehman Brothers High-Grade Fixed Income Fund is incorporated by reference to Exhibit 1(d) to Post-Effective Amendment No. 3.

1 (e)

- --

Form of Articles Supplementary to Registrant's Articles of Incorporation with respect to Lehman Brothers New York Municipal Money Market Fund is filed herewith.

2

- --

Registrant's By-Laws are incorporated by reference to Exhibit 2 to Pre-Effective Amendment No. 1, filed July 22, 1993 ("Pre-Effective Amendment No. 1") to the Registration Statement.

3

- --

Not Applicable.

4

- --

Form of Stock Certificate for shares of Registrant's Capital Stock is incorporated by reference to Exhibit 4 to Pre-Effective Amendment No. 1.

5 (a)

- --

Form of Investment Advisory Agreements between Registrant and Lehman Brothers Global Asset Management Inc. ("LBGAM Inc.") relating to Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund are incorporated by reference to Exhibit 5 to Pre-Effective Amendment No. 1.

5 (b)

- --

Form of Investment Advisory Agreement between Registrant and LBGAM Inc. relating to Lehman Selected Growth Stock Portfolio is incorporated by reference to Exhibit 5(b) to Post-Effective Amendment No. 2.

5 (c)

- --

Form of Investment Advisory Agreements between Registrant and Lehman Brothers Global Asset Management Limited ("LBGAM

Ltd.") relating to Lehman Mexican Growth and Income Portfolio and Lehman Latin America Dollar Income Portfolio is incorporated by reference to Exhibit 5(c) to Post-Effective Amendment No 2.

</TABLE>

<TABLE>

<S>

<C>

<C>

5 (d)

- - -

Form of Research Service Agreements between Lehman Brothers Inc. and LBGAM Ltd. is incorporated by reference to Exhibit 10 to Post-Effective Amendment No. 2.

5 (e)

- - -

Form of Investment Advisory Agreements between Registrant and LBGAM Ltd. relating to Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund and Lehman Brothers International Equity Fund are incorporated by reference to Exhibit 5(e) to Post-Effective Amendment No. 3.

5 (f)

- - -

Form of Investment Advisory Agreements between Registrant and LBGAM Inc. relating to Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund and Lehman Brothers High-Grade Fixed Income Fund are incorporated by reference to Exhibit 5(f) to Post-Effective Amendment No. 3.

5 (g)

- - -

Form of Investment Advisory Agreement between Registrant and LBGAM Inc. relating

to Lehman Brothers New York Municipal
Money Market Fund is filed herewith.

6

- --

Form of Distribution Agreement between
Registrant and Lehman Brothers Inc. is
incorporated by reference to Exhibit 6 to
Pre-Effective Amendment No. 1.

7

- --

Not Applicable.

8 (a)

- --

Form of Custodian Agreement between
Registrant and Boston Safe Deposit and
Trust Company is incorporated by reference
to Exhibit 8(a) to Pre-Effective Amendment
No. 1.

8 (b)

- --

Form of Administration Agreement between
Registrant and The Boston Company
Advisors, Inc. is incorporated by
reference to Exhibit 8(b) to Pre-Effective
Amendment No. 1.

9 (a)

- --

Form of Transfer Agency Agreement between
Registrant and The Shareholder Services
Group, Inc. is incorporated by reference
to Exhibit 9 to Pre-Effective Amendment
No. 1.

</TABLE>

<TABLE>

<S>

<C>

<C>

9 (b)

- --

Form of Amendment to the Transfer Agency Agreement between Registrant and The Shareholder Services Group, Inc. is incorporated by reference to Exhibit 9(b) to Post-Effective Amendment No. 3.

10

- --

Opinion and Consent of Piper & Marbury is to be filed by amendment.

11

- --

Consent of independent auditors is incorporated by reference to Exhibit 11 to Post-Effective Amendment No. 5.

12

- --

Not Applicable.

13(a)

- --

Form of Share Purchase Agreement between Registrant and Lehman Brothers Inc. relating to Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund is incorporated by reference to Exhibit 13 to Pre-Effective Amendment No. 1.

13(b)

- --

Form of Share Purchase Agreement between Registrant and Lehman Brothers Inc. relating to the addition of Selected Growth Stock Portfolio, Lehman Latin America Dollar Income Portfolio and Lehman Mexican Growth and Income Portfolio is incorporated by reference to Exhibit 13(b) to Post-Effective Amendment No. 2.

13(c)

- --

Form of Share Purchase Agreement between Registrant and Lehman Brothers Inc. relating to Global Clearing Shares, dated July 21, 1994, is incorporated by reference to Exhibit 13(c) to Post-Effective Amendment No. 3.

13(d)

- --

Form of Share Purchase Agreement between Registrant and Lehman Brothers Inc. relating to Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund, Lehman Brothers International Equity Fund, Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund and Lehman Brothers High-Grade Fixed Income Fund is incorporated by reference to Exhibit 13(d) to Post-Effective Amendment No. 3.

13(e)

- --

Form of Share Purchase Agreement between Registrant and Lehman Brothers Inc. relating to Lehman Brothers New York Municipal Money Market Fund and additional shares of Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund is filed herewith.

14

- --

Not Applicable.

15(a)

- --

Form of Plan of Distribution relating to Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund is incorporated by reference to Exhibit 15 to

15(b)

- --

Form of Amended and Restated Services and Distribution Plan is incorporated by reference to Exhibit 15(b) to Post-Effective Amendment No. 3.

15(c)

- --

Form of Amended and Restated Distribution Plan (the "Restated Plan") dated January 27, 1994 relating to Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund is incorporated by reference to Exhibit 15(c) to Post-Effective Amendment No. 3.

15(d)

- --

Amendment to the Restated Plan dated July 21, 1994 is incorporated by reference to Exhibit 15(d) to Post-Effective Amendment No. 3.

15(e)

- --

Form of Shareholder Servicing Agreement between Registrant and Service Organizations relating to the Select Shares of Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund, Lehman Brothers International Equity Fund, Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund and Lehman Brothers High-Grade Fixed Income Fund is incorporated by reference to Exhibit 15(e) to Post-Effective Amendment No. 3.

15(f)

- --

Form of Amended and Restated Distribution

Plan, as amended, with respect to Lehman Brothers New York Municipal Money Market Fund is filed herewith.

15(g)

- --

Form of Amended and Restated Services and Distribution Plan, as amended, with respect to additional shares of Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund.

</TABLE>

<TABLE>

<CAPTION>

<S>

<C>

<C>

16

- --

Not Applicable.

17

- --

Not Applicable.

18

- --

Powers of Attorney of Mr. Dorsett, Mr. Hatsopoulos and Ms. Holmes dated November 2, 1994 are incorporated by reference to Exhibit 18 to Post-Effective Amendment No. 4.

27

- --

Financial Data Schedules for the Company's financial statements dated July 31, 1994 are filed herewith.

</TABLE>

Item 25. Persons Controlled by or under Common Control with Registrant

None.

Item 26. Number of Holders of Securities

Title of Class

Common Stock, par value
\$.001 per share

<TABLE>

Holders as of February 14, 1995

FUND	<C>
Lehman Brothers Daily Income Fund (Class A)	626,962,107.890
Lehman Brothers Municipal Income Fund (Class B)	284,342,882.790
Lehman Brothers Selected Growth Stock Portfolio (Class C)	3,169,531.497

</TABLE>

Item 27. Indemnification.

Reference is made to Articles VII and VIII of Registrant's Amended Articles of Incorporation filed as Exhibit 1(a) to Post-Effective Amendment No. 2 to the Registration Statement, Article V of Registrant's By-Laws filed as Exhibit 2 to Pre-Effective Amendment No. 1, and paragraph 4 of the Distribution Agreement filed as Exhibit 6 to Pre-Effective Amendment No. 1.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities of Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant understands that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Item 28. Business and Other Connections of Investment Adviser.

Lehman Brothers Global Asset Management Inc. ("LBGAM Inc."), which serves as investment adviser to Lehman Brothers Daily Income Fund, Lehman Brothers Municipal Income Fund and Lehman Selected Growth Stock Portfolio, and will serve as investment adviser to Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund, Lehman Brothers New York Municipal Money Market Fund and Lehman Brothers High-Grade Fixed Income Fund, is a wholly owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings"). LBGAM Inc. is an investment adviser registered under the Investment Advisers Act of 1940 (the "Advisers Act") and serves as investment counsel for individuals with substantial capital, executors, trustees and institutions. It also serves as investment adviser or sub-investment adviser to several investment companies.

The list required by this Item 28 of officers and directors of LBGAM Inc., together with information as to any other business profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated by reference to Schedules A and D of Form ADV filed by LBGAM Inc. pursuant to the Advisers Act (SEC File No. 801-42006).

Lehman Brothers Global Asset Management Limited ("LBGAM Ltd."), which will serve as investment adviser to Lehman Mexican Growth and Income Portfolio, Lehman Latin America Dollar Income Portfolio, Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund, and Lehman Brothers International Equity Fund, is an affiliate of Lehman Brothers and is an indirect, wholly owned subsidiary of Holdings. LBGAM Ltd. is an investment adviser registered under the Advisers Act and serves as investment adviser or sub-investment adviser to several U.S. registered and offshore investment funds.

The list required by this Item 28 of officers and directors of LBGAM Ltd., together with information as to any other business profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated by reference to Schedules A and D of Form ADV filed by LBGAM Ltd. pursuant to the Advisers Act (SEC File No. 801-21068).

Item 29. Principal Underwriters.

(a) In addition to acting as distributor for the shares of the Registrant's funds, Lehman Brothers Inc. ("Lehman Brothers") acts as distributor for Lehman Brothers Institutional Funds Group Trust, The USA High Yield Fund N.V., The Latin American Bond Fund N.V., Mexican Short-Term Investment Portfolio N.V., Garzarelli Sector Analysis Portfolio N.V., The Mexican Appreciation Fund N.V., The Mexico Premium Income Portfolio N.V., ECU Fixed-Income Fund N.V., European Equity Investments N.V., Pacific Equity Investments N.V., Global Bond Investments N.V., U.S. Money Market Investments N.V., U.S. Appreciation Fund N.V., U.S. Government Securities Investments N.V., The Asian Dragon Portfolio N.V., Offshore Diversified Strategic Income Fund N.V., Lehman Brothers Series I Mortgage-Related Securities Portfolio N.V., TBC Enhanced Tactical Asset Allocation Portfolio N.V., U.S. Tactical Asset Allocation Portfolio N.V., Short-Term World Income Portfolio (Cayman), The Global Advisors Portfolio N.V., The Global Advisors Portfolio II N.V., Short Duration U.S. Government Fund N.V., The Global Natural Resources Fund N.V. and various series of unit investment trusts.

(b) Lehman Brothers is a wholly-owned subsidiary of Holdings. The information required by this Item 29 with respect to each director, officer and partner of Lehman Brothers is incorporated by reference to Schedule A of Form BD filed by Lehman Brothers pursuant to the Securities Exchange Act of 1934 (SEC File No. 8-12324).

(c) Not Applicable.

Item 30. Location of Accounts and Records.

- (1) Lehman Brothers Funds, Inc.
One Exchange Place
53 State Street
Boston, Massachusetts 02109
- (2) Lehman Brothers Global Asset Management Inc.
3 World Financial Center
New York, New York 10285
- (3) Lehman Brothers Global Asset Management Limited
Two Broadgate
London EC2M 7HA
England
- (4) Boston Safe Deposit and Trust Company

One Boston Place
Boston, Massachusetts 02108

(5) The Shareholder Services Group, Inc.
One Exchange Place
53 State Street
Boston, Massachusetts 02109

Item 31. Management Services.

Not Applicable

Item 32. Undertakings.

The undersigned Registrant hereby undertakes to file a post-effective amendment, using financial statements which need not be certified, within four to six months from the date the Registrant commences selling shares of each of Lehman Mexican Growth and Income Portfolio, Lehman Latin America Dollar Income Portfolio, Lehman Brothers International Bond Fund, Lehman Brothers Global Emerging Markets Equity Fund, Lehman Brothers Global Emerging Markets Bond Fund, Lehman Brothers Large Capitalization U.S. Equity Fund, Lehman Brothers International Equity Fund, Lehman Brothers Municipal Bond Fund, Lehman Brothers New York Municipal Bond Fund, Lehman Brothers High-Grade Fixed Income Fund and Lehman Brothers New York Municipal Money Market Fund.

The undersigned Registrant hereby undertakes to furnish each person to whom a prospectus is delivered with a copy of the Registrant's latest annual report to shareholders, upon request and without charge.

The undersigned Registrant hereby undertakes to call a meeting of shareholders for the purpose of voting upon the question of removal of one or more of Registrant's directors when requested in writing to do so by the holders of at least 10% of Registrant's outstanding shares of common stock and, in connection with such meeting, to assist in communications with other shareholders in this regard, as provided under Section 16(c) of the 1940 Act.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, the Registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of New York and State of New York, on February 22, 1995.

LEHMAN BROTHERS FUNDS, INC.
Registrant

By: /s/ Andrew D. Gordon
Andrew D. Gordon, President

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<TABLE>

<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ Kirk Hartman	Chairman of the Board	
Kirk Hartman	and Director	February 22, 1995

/s/ Michael Kardok Treasurer and Chief
Michael Kardok Financial Officer February 22, 1995
(principal financial and accounting officer)

* Director February 22, 1995
Burt N. Dorsett

* Director February 22, 1995
John Hatsopoulos

* Director February 22, 1995
Kathleen C. Holmes

* /s/ Andrew Gordon
Attorney-in-Fact

EXHIBIT No. DESCRIPTION OF EXHIBIT

1(e) Form of Articles Supplementary to the Registrant's Articles of Incorporation to be filed with respect to Lehman Brothers New York Municipal Money Market Fund.

5(g) Form of Investment Advisory Agreement with Lehman Brothers Global Asset Management with respect to Lehman Brothers New York Municipal Money Market Fund.

10 Opinion of Piper & Marbury to be filed by amendment.

13(e) Form of Share Purchase Agreement with respect to Lehman Brothers New York Municipal Money Market Fund and additional shares of Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund.

15(f) Form of Amended and Restated Distribution Plan, as amended, with respect to Lehman Brothers New York Municipal Money Market Fund.

15(g) Form of Amended and Restated Services and Distribution Plan, as amended, with respect to and additional classes of shares of Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund.

27 Financial Data Schedules

Exhibit 1(e)
LEHMAN BROTHERS FUNDS, INC.

FORM OF
ARTICLES SUPPLEMENTARY

Lehman Brothers Funds, Inc., a Maryland corporation having its principal office in Baltimore City, Maryland (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Pursuant to the authority of the Board of Directors to classify and reclassify unissued shares of capital stock of the Corporation, the Board of Directors has:

(a) duly divided and reclassified 555 million shares of the authorized and unissued shares of Class A Common Stock of the Corporation, par value \$.001 per shares, into Class E Common Stock and has provided for the issuance of such class;

(b) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class A Common Stock of the Corporation, par value \$.001 per share, into Class F Common Stock and has provided for the issuance of such class;

(c) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class A Common Stock of the Corporation, par value \$.001 per share, into Class G Common Stock and has provided for the issuance of such class;

(d) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class A Common Stock of the Corporation, par value \$.001 per share, into Class H Common Stock, and has provided for the issuance of such class;

(e) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class A Common stock of the Corporation, par value \$.001 per share, into Class I Common Stock and has provided for the issuance of such class;

(f) duly divided and reclassified 148.5 million shares of the authorized and unissued shares of Class A Common Stock of the Corporation, par value \$.001 per share, and 452.5 million shares of the authorized and unissued shares of Class B Common Stock of the Corporation, par value \$.001 per share, into Class J Common Stock and has provided for the issuance of such class;

(g) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class B Common Stock of the Corporation, par value \$.001 per share, into Class K Common Stock, and has provided for the issuance of such class;

(h) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class B Common Stock of the Corporation, par value \$.001 per share, into Class L Common Stock, par value \$.001 per share, and has provided for the issuance of such class;

(i) duly divided and reclassified 605 million shares of the authorized and unissued shares of Class B Common Stock of the Corporation, par value \$.001 per share, into Class M Common Stock, and has provided for the issuance of such class; and

(j) duly divided and reclassified 702 million shares of the authorized and unissued shares of Class B Common Stock of the Corporation, par value \$.001 per share, 49 million shares of the authorized and unissued shares of Class C Common Stock of the Corporation, par value \$.001 per share, and 49 million shares of the authorized and unissued shares of Class D Common Stock of the Corporation, par value \$.001 per share, into Class N Common Stock, and has provided for the issuance of such class.

Any class of Common Stock shall be referred to herein individually as a "Class" and collectively, together with any further classes from time to time established, as "Classes."

SECOND: The shares of Class F Common Stock, Class G

Common Stock, Class H Common Stock, Class I Common Stock, Class J Common Stock, Class K Common Stock, Class L Common Stock, Class M Common Stock and Class N Common Stock, as so divided and reclassified by the Corporation's Board of Directors, shall have the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption set forth in the Corporation's Charter and shall be subject to all provisions of the Corporation's Charter relating to shares of Class A Common Stock, Class B Common Stock, Class C Common Stock, Class D Common Stock and Class E Common Stock, respectively, and to stock of the Corporation generally, except as otherwise set forth in these Articles Supplementary.

THIRD: (a) The Class A Common Stock shall have eight sub-classes of shares, the first of which, the sub-class known as the "Select" sub-class which shall be redesignated as the "Investment" sub-class, consisting, until further changed, of 1.8765 billion shares, the "Select" sub-class, consisting, until further changed, of 5 million shares, the "Premier" sub-class, consisting, until further changed, of 5 million shares, the "Class A" sub-class, consisting, until further changed, of 300 million shares, the "Class B" sub-class, consisting, until further changed, of 150 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, the "Class W" sub-class, consisting, until further changed, of 10 million shares and the "Global Clearing" sub-class, consisting, until further changed, of 300 million shares.

(b) The Class B Common Stock shall have eight sub-classes of shares, the first of which, the sub-class known as the "Select" sub-class which shall be redesignated as the "Investment" sub-class, consisting, until further changed, of 1.8765 billion shares, the "Select" sub-class, consisting, until further changed, of 5 million shares, the "Premier" sub-class, consisting, until further changed of 5 million shares, the "Class A" sub-class, consisting, until further changed, of 300 million shares, the "Class B" sub-class, consisting, until further changed, of 150 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, the "Class W" sub-class, consisting, until further changed, of 10 million shares and the "Global Clearing" sub-class, consisting, until further changed, of 300 million shares.

(c) The Class E Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(d) The Class F Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(e) The Class G Common Stock shall have six

sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(f) The Class H Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(g) The Class I Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(h) The Class J Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(i) The Class K Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(j) The Class L Common Stock shall have six sub-classes of shares, which shall be designated the "Select" sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(k) The Class M Common Stock shall have six sub-classes of shares, which shall be designated the "Select"

sub-class, consisting, until further changed, of 10 million shares, the "Premier" sub-class, consisting, until further changed, of 10 million shares, the "Class A" sub-class, consisting, until further changed, of 350 million shares, the "Class B" sub-class, consisting, until further changed, of 200 million shares, the "Class C" sub-class, consisting, until further changed, of 25 million shares, and the "Class W" sub-class, consisting, until further changed, of 10 million shares.

(l) The Class N Common Stock shall have two sub-classes of shares, which shall be designated the "Investment" sub-class, consisting, until further changed, of 500 million shares and the "Global Clearing" sub-class, consisting, until further changed, of 300 million shares.

(m) Any sub-class of any Class of Common Stock shall be referred to herein individually as a "Sub-Class" and collectively, together with any further sub-classes from time to time established, as "Sub-Classes."

(n) All Sub-Classes of a particular Class of Common Stock of the Corporation shall represent the same interest in the Corporation and have identical voting, dividend, liquidation, and other rights, terms and conditions with any other shares of Common Stock of that Class; provided, however, that notwithstanding anything in the Corporation's Charter to the contrary, shares of Class F Common Stock, Class G Common Stock, Class H Common Stock, Class I Common Stock, Class J Common Stock, Class K Common Stock, Class L Common Stock, Class M Common Stock and Class N Common Stock shall have such additional rights, terms and conditions as are provided in section FOURTH below; and provided further, however, that notwithstanding anything in the Corporation's Charter to the contrary:

(1) Expenses related solely to a particular Sub-Class of a Class (including, without limitation, distribution expenses under a Rule 12b-1 plan and administrative expenses under an administration or service agreement, plan or other arrangement, however designated) shall be borne by that Sub-Class and shall be appropriately reflected (in the manner determined by the Board of Directors) in the net asset value, dividends, distribution and liquidation rights of the shares of that Sub-Class.

(2) As to any matter with respect to which a separate vote of any Sub-Class of a Class is required by the Investment Company Act of 1940 (the "Investment Company Act") or by the Maryland General Corporation Law (including, without limitation, approval of any plan, agreement or other arrangement referred to in subsection (1) above), such requirement as to a separate vote by that Sub-Class shall apply in lieu of Single Class Voting (as defined in the Corporation's Charter), and if permitted by the Investment Company Act or the Maryland General Corporation Law, the Sub-Classes of more than one Class shall vote together as a single class on any such matter which shall have the same effect on each such Sub-Class. As to any matter which does not affect the interest of a particular Sub-Class of a Class, only the holders of shares of the affected Sub-Class of that Class shall be entitled to vote.

FOURTH: The Shares of the Class F Common Stock, the Class G Common Stock, the Class H Common Stock, the Class I Common Stock, the Class J Common Stock, the Class K Common Stock, the Class L Common Stock, the Class M Common Stock and the Class N Common Stock shall have the following additional rights, terms and conditions:

(1) Each such Class or Sub-Class thereof shall be subject to such contingent deferred sales charges and/or other sales charges as may be established by resolution of the Board of Directors from time to time in accordance with the Investment Company Act and applicable rules and regulations of the National Association of Securities Dealers, Inc.

(2) Each such Class or Sub-Class shall have an exchange privilege, at such times and upon such terms and conditions as may be established by resolution of the Board of Directors from time to time, permitting exchange of shares of one of such Classes or Sub-Classes for shares of other Classes or Sub-Classes.

FIFTH: The shares aforesaid have been duly classified or reclassified by the Board of Directors pursuant to the authority and power contained in the Corporation's Charter.

SIXTH: These Articles Supplementary do not increase the authorized stock of the Corporation.

IN WITNESS WHEREOF, LEHMAN BROTHERS FUNDS, INC. has caused these presents to be signed in its name and on its behalf by its President and witnessed by its Secretary on
, 1995.

WITNESS:
INC.

LEHMAN BROTHERS FUNDS,

Patricia L. Bickimer, Secretary
President

Andrew Gordon,

THE UNDERSIGNED, Andrew Gordon, President of LEHMAN BROTHERS FUNDS, INC., who executed on behalf of the Corporation the foregoing Articles Supplementary of which this certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles Supplementary to be the corporate act of said Corporation and hereby certifies that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects under the penalties of perjury.

Exhibit 5(g)

LEHMAN BROTHERS FUNDS, INC.

FORM OF
INVESTMENT ADVISORY AGREEMENT

_____, 1995

Lehman Brothers Global Asset Management Inc.
3 World Financial Center
New York, NY 10285

Ladies and Gentlemen:

Lehman Brothers Funds, Inc. (the "Company"), a corporation organized under the laws of the State of Maryland, confirms its agreement with Lehman Brothers Global Asset Management Inc. (the "Advisor") regarding investment advisory services to be provided by the Advisor to New York Municipal Money Market Fund (the "Fund"), a portfolio of the Company. The Advisor agrees to provide services upon the following terms and conditions:

1. Investment Description; Appointment.

The Company anticipates that the Fund will employ its capital by investing and reinvesting in investments of the kind and in accordance with the limitations specified in the Company's Articles of Incorporation dated May 5, 1993, as amended from time to time (the "Articles of Incorporation"), in the prospectus (the "Prospectus") and the statement of additional information (the "Statement") describing the Fund filed with the Securities and Exchange Commission as part of the Company's Registration Statement on Form N-1A, as amended from time to time, and in the manner and to the extent as may from time to time be approved by the Board of Directors of the Company. Copies of the Prospectus, the Statement and the Articles of Incorporation have been or will be submitted to the Advisor. The Company desires to employ and appoints the Advisor to act as the Fund's investment adviser. The Advisor accepts the appointment and agrees to furnish the services for the compensation set forth below.

2. Services as Investment Advisor.

Subject to the supervision and direction of the Board of Directors of the Company, the Advisor has general responsibility for the investment advisory services provided to the Fund and will exercise this responsibility in accordance with the Articles of Incorporation, the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as the same may from time to time be amended, and with the Fund's investment objective and policies as stated in the Prospectus and Statement relating to the Fund as from time to time in effect. In connection therewith, the Advisor will, among other things, (a) manage the Fund's portfolio in accordance with the Fund's investment objective and policies as stated in the Prospectus and the Statement; (b) make investment decisions for the Fund; (c) place orders to purchase and sell securities on behalf of the Fund; (d) employ professional portfolio managers and securities analysts who provide research services to the Fund; (e) participate in the formulation of the Fund's investment policies; (f) analyze economic trends affecting the Fund; and (g) monitor the brokerage and research services (as those terms are defined in Section 28(e) of the Securities Act of 1934) that are provided to the Fund and may be considered in selecting brokers or dealers to execute particular transactions. In providing those services, the Advisor will conduct a continual program of investment, evaluation and, if appropriate, sale and reinvestment of the Fund's assets. In addition, the Advisor will furnish the Fund with whatever statistical information the Fund may reasonably request with respect to the instruments that the Fund may hold or contemplate purchasing.

3. Information Provided to the Company.

The Advisor will keep the Company informed of

developments materially affecting the Fund, and will, on its own initiative, furnish the Company from time to time with whatever information the Advisor believes is appropriate for this purpose.

4. Standard of Care.

The Advisor will exercise its best judgment in rendering the services described in paragraph 2 of this Agreement. The Advisor will not be liable for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the matters to which this Agreement relates, except that nothing in this Agreement may be deemed to protect or purport to protect the Advisor against any liability to the Company or to shareholders of the Fund to which the Advisor would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or by reason of the Advisor's reckless disregard of its obligations and duties under this Agreement.

5. Compensation.

In consideration of the services rendered pursuant to this Agreement, the Company will pay the Advisor on the first business day of each month a fee for the previous month at the annual rate of .30% of the value of the average daily net assets of the Fund. The fee for the period from the date the Fund commences its investment operations to the end of the month during which the Fund commences its investment operations will be prorated according to the proportion that the period bears to the full monthly period. Upon any termination of this Agreement before the end of a month, the fee for such part of that month will be prorated according to the proportion that the period bears to the full monthly period and will be payable upon the date of termination of this Agreement. For the purpose of determining fees payable to the Advisor, the value of the Fund's net assets will be computed at the times and in the manner specified in the Prospectus and/or the Statement.

6. Expenses.

The Advisor will bear all expenses in connection with the performance of its services under this Agreement. The Company will be responsible for all of the Fund's other expenses and liabilities, including but not limited to: costs incurred in connection with the Company's organization; investment advisory, sub-investment advisory and administration fees; fees for necessary professional and brokerage services; fees for any pricing service; the costs of regulatory compliance; the costs associated with maintaining the Company's legal existence; and the costs of corresponding with shareholders of the Fund.

7. Reduction of Fee.

If in any fiscal year of the Fund, the aggregate expenses of the Fund (including fees pursuant to this Agreement, but excluding interest, taxes, brokerage fees and, if permitted by the relevant state securities commissions, extraordinary expenses or other expenses) exceed the expense limitation of any state having jurisdiction over the Fund, the Advisor will reduce its fee to the Fund for that excess expense, to the extent required by state law. A fee reduction pursuant to this paragraph 7, if any, will be estimated, reconciled and paid on a monthly

basis.

8. Services to Other Companies or Accounts.

(a) The Company understands that the Advisor now acts, will continue to act and may act in the future as investment adviser to fiduciary and other managed accounts, and may act in the future as investment adviser to other investment companies, and the Company has no objection to the Advisor so acting, provided that whenever the Fund and one or more fiduciary and other managed accounts or other investment companies advised by the Advisor have available funds for investment, investments suitable and appropriate for each will be allocated in accordance with a formula believed by the Advisor to be equitable to each. The Company recognizes that in some cases this procedure may adversely affect the price paid or received by the Fund or the size of the position obtained or disposed of by the Fund.

(b) The Company understands that the persons employed by the Advisor to assist in the performance of the Advisor's duties under this Agreement will not devote their full time to such service and nothing contained in this Agreement will be deemed to limit or restrict the right of the Advisor or any affiliate of the Advisor to engage in and devote time and attention to other businesses or to render services of whatever kind or nature.

9. Term of Agreement.

(a) This Agreement will become effective as of the date the Fund commences its investment operations and will continue for an initial two-year term and will continue thereafter so long as the continuance is specifically approved at least annually by (i) the Board of Directors of the Company or (ii) a vote of a "majority" (as defined in the Investment Company Act of 1940, as amended (the "1940 Act")) of the Fund's outstanding voting securities, provided that in either event the continuance is also approved by a majority of the Directors who are not "interested persons" (as defined in the 1940 Act) of any party to this Agreement, by vote cast in person at a meeting called for the purpose of voting on the approval.

(b) This Agreement is terminable, without penalty, on 60 days' written notice, by the Board of Directors of the Company or by vote of holders of a majority of the Fund's outstanding voting securities, or upon 60 days' written notice, by the Advisor.

(c) This Agreement will terminate automatically in the event of its "assignment" (as defined in the 1940 Act).

10. Representation by the Company.

The Company represents that a copy of the Articles of Incorporation are on file with the Secretary of the State of Maryland.

11. Limitation of Liability.

The execution and delivery of this Agreement have been authorized by the Board of Directors of the Company. No series of the Company, including the Fund, will be liable

for any claims against any other series.

12. Governing Law.

This agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

13. Other.

Upon expiration or earlier termination of this Agreement, the Company shall, if reference to "Lehman" is made in the corporate name of the Company or in the name of the Fund and if the Advisor requests in writing, as promptly as practicable change its corporate name and the name of the Fund so as to eliminate all reference to "Lehman", and thereafter the Company and the Fund shall cease transacting business in any corporate name using the word "Lehman" or containing any other reference to the Advisor or "Lehman." The foregoing rights of the Advisor and the obligations of the Company shall not deprive the Advisor, or any affiliate thereof which has "Lehman" in its name, of, but shall be in addition to, any other rights or remedies to which the Advisor and any such affiliate may be entitled in law or equity by reason of any breach of this Agreement by the Company, and the failure and omission of the Advisor to request a change of the Company's or the Fund's name or a cessation of the use of the name of "Lehman" as described in this paragraph 13 shall not under any circumstances be deemed a waiver of the right to require such change or cessation at any time thereafter for the same or any subsequent breach.

If the foregoing is in accordance with your understanding, kindly indicate your acceptance of this Agreement by signing and returning the enclosed copy of this Agreement.

Very truly yours,

LEHMAN BROTHERS FUNDS, INC.

By: _____

Name:

Title:

Accepted:

LEHMAN BROTHERS GLOBAL
ASSET MANAGEMENT INC.

By: _____

Name:

Title:

Exhibit 13(e)

LEHMAN BROTHERS FUNDS, INC.
FORM OF

PURCHASE AGREEMENT

Lehman Brothers Funds, Inc. (the "Company"), a Maryland corporation, and Lehman Brothers Inc. (the "Distributor"), hereby agree as follows:

The Company hereby offers the Distributor and the Distributor hereby purchases 1 share of each of Class A Shares, Class B Shares, Class C Shares, Class W Shares, Select Shares and Premier Shares of each of the Company's Lehman Selected Growth Stock Portfolio, with a par value of \$.001 per share, for a total of six (6) shares at the price of \$10.00 per share. The Company also hereby offers the Distributor and the Distributor hereby purchases 1 Select Share and 1 Global Clearing Share of Lehman Brothers New York Municipal Money Market Fund and 1 share of each of Class A Shares, Class B Shares, Class C Shares, Class W Shares, Select Shares and Premier Shares of Lehman Brothers Daily Income Fund and Lehman Brothers Municipal Income Fund, each with a par value of \$.001 per share, for a total of fourteen (14) shares at the price of \$1.00 per share, the shares referred to above (the "Shares") are the "initial shares" of the Classes. The Distributor hereby acknowledges receipt of a purchase confirmation reflecting the purchase of twenty (20) shares, and the Company hereby acknowledges receipt from the Distributor of funds in the amount of \$74.00 in full payment for the Shares.

The Distributor represents and warrants to the Company that the Shares are being acquired for investment purposes and not for the purpose of distribution.

The Distributor agrees that if it or any direct or indirect transferee of the Shares redeems the Shares prior to the fifth anniversary of the date that the Company begins its investment activities, the Distributor will pay to the Company an amount equal to the number resulting from multiplying the Company's total unamortized organizational expenses by a fraction, the numerator of which is equal to the number of Shares redeemed by the Distributor or such transferee and the denominator of which is equal to the number of Shares outstanding as of the date of such redemption, as long as the administrative position of the staff of the Securities and Exchange Commission requires such reimbursement.

The Company represents that a copy of its Amended Articles of Incorporation, as supplemented, is on file in the Office of the Secretary of the State of Maryland.

This Agreement has been executed on behalf of the Company by the undersigned officer of the Company in his capacity as an officer of the Company. The obligations of this Agreement shall be binding only upon the assets and property of each individual Fund and not upon the assets and property of any other portfolio of the Company and shall not be binding upon any Director, officer or shareholder of a Fund or the Company individually.

This agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the ____ day of _____, 1995.

LEHMAN BROTHERS FUNDS, INC.

Attest:

By:

Name:
Title:

Attest: LEHMAN BROTHERS INC.

By:

Name:
Title:

Exhibit 15(f)

LEHMAN BROTHERS FUNDS, INC.

FORM OF
AMENDED AND RESTATED DISTRIBUTION PLAN

This Distribution Plan (the "Plan") is adopted in accordance with Rule 12b-1 (the "Rule") under the Investment Company Act of 1940, as amended (the "1940 Act"), by Lehman Brothers Funds, Inc., a corporation organized under the laws of the State of Maryland (the "Company"), with respect to those classes (each a Class) of its investment portfolios (each, a "Fund") listed in Appendix A, as amended from time to time, subject to the following terms and conditions:

Section 1. Annual Fee.

(a) Distribution Fee. Each Fund will pay to the distributor of its shares, Lehman Brothers Incorporated, a corporation organized under the laws of the State of Delaware (the "Distributor"), on behalf of each Class of such Fund listed on Appendix A, a distribution fee in connection with the distribution of shares of each such Class under the Plan at the annual rate of 0.25% of the average daily net assets of such Fund attributable to each such Class (the "Distribution Fee").

(b) Payment of Fees. The Distribution Fee will be calculated daily and paid monthly by each Fund with respect to each Class at the annual rates indicated above.

Section 2. Expenses Covered by the Plan.

The annual Distribution Fee paid by a Fund to the Distributor under Section 1 of the Plan may be used by the Distributor to cover advertising, marketing and distribution expenses intended to result in the sale of the Fund's shares, including without limitation, payments to Distributor's financial consultants or introducing brokers.

Section 3. Approval of Shareholders.

The Plan will not take effect with respect to a particular Class of a Fund, and no fee will be payable in accordance with Section 1 of the Plan, until the Plan has been approved by a vote of at least a majority of the outstanding voting securities of such Class.

Section 4. Approval of Directors.

Neither the Plan nor any related agreements will take effect with respect to a Class of a Fund until approved by a majority vote of both (a) the full Board of Directors of the Company and (b) those Directors who are not interested persons of the Company and who have no direct or indirect financial interest in the operation of the Plan or in any agreements related to it (the "Independent Directors"), cast in person at a meeting called for the purpose of voting on the Plan and the related agreements.

Section 5. Continuance of the Plan.

The Plan will continue in effect from year to year with respect to each Class of a Fund, so long as its continuance is specifically approved annually by vote of the Company's Board of Directors in the manner described in Section 4 above.

Section 6. Termination

The Plan may be terminated with respect to a Class of a Fund at any time, without the payment of any penalty, by the vote of majority of the outstanding voting securities (as so defined) of such Class of such Fund or by a vote of a majority of the Independent Directors, in any such event on sixty days' written notice to the Distributor. The Plan will remain in effect with respect to a particular Class of a Fund even if the Plan has been terminated in accordance with this Section 6 with respect to any other Class of the Fund or of any other Fund.

Section 7. Amendments

The Plan may not be amended with respect to a Class of a Fund to increase materially the amounts of the fees described in Section 1 above, unless the amendment is approved by a vote of the holders of at least a majority of the outstanding voting securities of such Class of such Fund. No material amendment to the Plan may be made unless approved by the Company's Board of Directors in the manner described in Section 4 above.

Section 8. Selection of Certain Directors.

While the Plan is in effect, the selection and nomination of the Company's Directors who are not interested persons of the Company will be committed to the discretion of the Directors then in office who are not interested persons of the Company.

Section 9. Written Reports

In each year during which the Plan remains in effect, any person authorized to direct the disposition of monies paid or payable by a Fund with respect to a Class pursuant to the Plan or any related agreement will prepare and furnish to the Company's Board of Directors and the Board will review, at least quarterly, written reports, complying with the requirements of the Rule, which set out the amounts

expended under the Plan and the purposes for which those expenditures were made.

Section 10. Preservation of Materials.

The Company will preserve copies of the Plan, any agreement relating to the Plan and any report made pursuant to Section 9 above, for a period of not less than six years (the first two years in an easily accessible place) from the date of the Plan, agreement or report.

Section 11. Meanings of Certain Terms.

As used in the Plan, the terms "interested person" and "majority of the outstanding voting securities" will be deemed to have the same meaning that those terms have under the 1940 Act and the rules and regulations under the 1940 Act, subject to any exemption that may be granted to the Company under the 1940 Act by the Securities and Exchange Commission.

Section 12. Filing of Articles of Incorporation.

The Company represents that a copy of its Amended Articles of Incorporation, as amended from time to time (the "Articles of Incorporation"), is on file with the Secretary of the State of Maryland.

Section 13. Limitation of Liability.

The obligations of the Company under this Plan will not be binding upon any of the Directors of the Company, shareholders of the Funds, nominees, officers, employees or agents, whether past, present or future, of the Company, individually, but are binding only upon the assets and property of the Funds, as provided in the Articles of Incorporation. The execution and delivery of this Plan have been authorized by the Directors of the Company, and signed by an authorized officer of the Company, acting as such, and neither the authorization by the Directors nor the execution and delivery by the officer will be deemed to have been made by any of them individually or to impose any liability on any of them personally, but will bind only the property of the Funds as provided in the Articles of Incorporation. No Fund or Class will be liable for any claims against any other Fund or Class.

Section 14. Dates.

The Plan has been executed by the Company with respect to each Fund as of January 27, 1994 and will become effective with respect to each Class of a Fund upon the date such Fund first commences its investment operations.

Section 15. Governing Law.

This Plan shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

LEHMAN BROTHERS FUNDS, INC.

By:

Name:
Title:

Dated: January 27, 1994

AMENDED APPENDIX A
TO AMENDED AND RESTATED DISTRIBUTION PLAN

</TABLE>

<TABLE>

<CAPTION>

Name of Fund <S>	Name of Class <C>
Lehman Brothers Daily Income Fund	Select Shares
Lehman Brothers Daily Income Fund	CDSC Shares
Lehman Brothers Daily Income Fund	Global Clearing Shares
Lehman Brothers Municipal Income Fund	Select Shares
Lehman Brothers Municipal Income Fund	CDSC Shares
Lehman Brothers Municipal Income Fund	Global Clearing Shares
Lehman Brothers New York Municipal Money Market Fund	Select Shares
Lehman Brothers New York Municipal Money Market Fund	Global Clearing Shares

Exhibit 15(g)
LEHMAN BROTHERS FUNDS, INC.

FORM OF AMENDED AND RESTATED
SERVICES AND DISTRIBUTION PLAN

This Services and Distribution Plan (the "Plan") is adopted in accordance with Rule 12b-1 (the "Rule") under the Investment Company Act of 1940, as amended (the "1940 Act"), by Lehman Brothers Funds, Inc., a corporation organized under the laws of the State of Maryland (the "Company"), with respect to those classes (each, a "Class") of its investment portfolios (each, a "Fund") listed in Appendix A, as amended from time to time, subject to the following terms and conditions:

Section 1. Annual Fees.

(a) Service Fee. Each Fund will pay to the distributor of its shares, Lehman Brothers Incorporated, a corporation

organized under the laws of the State of Delaware (the "Distributor"), on behalf of each Class of such Fund (other than Premier and Class W Shares), a service fee under the Plan at the annual rate of 0.25% of the average daily net assets of such Fund attributable to each such Class (the "Service Fee").

(b) Distribution Fee. In addition to the Service Fee, each Fund will pay to the Distributor, on behalf of each Class of such Fund, a distribution fee under the Plan at the annual rate set forth opposite the name of such Class on Appendix A hereto of the average daily net assets of such Fund attributable to each such Class (the "Distribution Fee").

(c) Payment of Fees. The Service Fee and Distribution Fee will be calculated daily and paid monthly by each Fund with respect to each Class at the annual rates indicated above. The Distributor may make payments to assist in the distribution of all classes of shares of the Funds out of any portion of any fee paid to the Distributor or any of its affiliates by a Fund, its past profits or any other sources available to it.

Section 2. Expenses Covered by the Plan.

(a) The Service Fee payable with respect to Select Shares is in return for certain administrative and shareholder services provided by the Distributor to the institutional investors that purchase Select Shares. Such administrative and shareholder services may include processing purchase, exchange and redemption requests from customers and placing orders with the Fund's transfer agent; processing dividend and distribution payments from the Fund on behalf of customers; providing information periodically to customers showing their positions in shares; responding to inquiries from customers concerning their investment in shares; arranging for bank wires; and providing such other similar services as may be reasonably requested.

The Distributor may retain all or a portion of the payments made to it pursuant to the Plan for the provision of services to holders of each Fund's Select Shares pursuant to Shareholder Servicing Agreements entered into by the Distributor in its sole discretion and may make payments to third parties to assist in providing the services provided to the Select Shares of each Fund. The Distributor may waive receipt of fees under the Plan for a period of time. All expenses incurred by the Company in connection with the Shareholder Servicing Agreements and the implementation of this Plan with respect to the Select Shares of a Fund shall be borne entirely by the holders of that Class of shares of the Fund.

(b) The Distribution Fee with respect to a Fund may be used by the Distributor to cover advertising, marketing and distribution expenses intended to result in the sale of the Fund's shares, including, without limitation, compensation for the Distributor's initial expense of paying its investment representatives or introducing brokers a commission upon the sale of the Fund's shares and accruals for interest on the amount of the foregoing expenses that exceed the Distribution Fee and if applicable, the contingent deferred sales charge received by the Distributor. In addition, the Service Fee with respect to a Fund may be used by the Distributor primarily to pay its financial consultants or introducing brokers for servicing

shareholder accounts, including a continuing fee to each such financial consultant or introducing broker, which fee shall begin to accrue immediately after the sale of such shares.

(b) The amount of the Distribution Fee and Service Fee payable by any Fund under Section 1 hereof is not related directly to expenses incurred by the Distributor and this Section 2 does not obligate a Fund to reimburse the Distributor for such expenses. The Distribution Fee and Service Fee set forth in Section 1 will be paid by a Fund to the Distributor unless and until the Plan is terminated or not renewed with respect to a Fund or Class thereof, and any distribution or service expenses incurred by the Distributor on behalf of a Fund in excess of payments of the Distribution and Service Fees specified in Section 1 hereof which the Distributor has accrued through the termination date are the sole responsibility and liability of the Distributor and not an obligation of a Fund.

Section 3. Approval of Shareholders.

The Plan will not take effect with the respect to a particular Class of a Fund, and no fee will be payable in accordance with Section 1 of the Plan, until the Plan has been approved by a vote of at least a majority of the outstanding voting securities of such Class.

Section 4. Approval of Directors.

Neither the Plan nor any related agreements will take effect with respect to a Class of a Fund until approved by a majority of both (a) the full Board of Directors of the Company and (b) those Directors who are not interested persons of the Company and who have no direct or indirect financial interest in the operation of the Plan or in any agreements related to it (the "Independent Directors"), cast in person at a meeting called for the purpose of voting on the Plan and the related agreements.

Section 5. Continuance of the Plan.

The Plan will continue in effect from year to year with respect to each Class of a Fund, so long as its continuance is specifically approved at least annually by the vote of the Company's Board of Directors in the manner described in Section 4 above.

Section 6. Termination.

The Plan may be terminated with respect to a Class of a Fund at any time, without the payment of any penalty, by the vote of a majority of the outstanding voting securities (as so defined) of such Class of such Fund or by a vote of the Independent Directors, in any such event on sixty days' notice to the Distributor. The Plan may remain in effect with respect to a particular Class of a Fund even if the Plan has been terminated in accordance with this Section 6 with respect to any other Class of the Fund or of any other Fund.

Section 7. Amendments.

The Plan may not be amended with respect to a Class of a Fund so as to increase materially the amounts of the fees

described in Section 1 above, unless the amendment is approved by a vote of the holders of at least a majority of the outstanding voting securities of such Class of such Fund. No material amendment to the Plan may be made unless approved by the Company's Board of Directors in the manner described in Section 4 above.

Section 8. Selection of Certain Directors.

While the Plan is in effect, the selection and nomination of the Company's Directors who are not interested persons of the Company will be committed to the discretion of the Directors then in office who are not interested persons of the Company.

Section 9. Written Reports.

In each year during which the Plan remains in effect, a person authorized to direct the disposition of monies paid or payable by a Fund with respect to a Class pursuant to the Plan or any related agreement will prepare and furnish to the Company's Board of Directors, and the Board will review, at least quarterly, written reports complying with the requirements of the Rule which set out the amounts expended under the Plan and the purposes for which those expenditures were made.

Section 10. Preservation of Materials.

The Company will preserve copies of the Plan, any agreement relating to the Plan and any report made pursuant to Section 9 above, for a period of not less than six years (the first two years in an easily accessible place) from the date of the Plan, agreement or report.

Section 11. Meanings of Certain Terms.

As used in the Plan, the terms "interested person" and "majority of the outstanding voting securities" will be deemed to have the same meaning that those terms have under the 1940 Act and the rules and regulations under the 1940 Act, subject to any exemption that may be granted to the Company under the 1940 Act by the Securities and Exchange Commission.

Section 12. Filing of Articles of Incorporation.

The Company represents that a copy of its Amended Articles of Incorporation, as amended from time to time (the "Articles of Incorporation"), is on file with the Secretary of the State of Maryland.

Section 13. Limitation of Liability.

The obligations of the Company under this Plan will not be binding upon any of the Directors of the Company, shareholders of the Funds, nominees, officers, employees or agents, whether past, present or future, of the Company, individually, but are binding only upon the assets and property of the Funds, as provided in the Articles of Incorporation. The execution and delivery of this Plan have been authorized by the Directors of the Company, and signed by an authorized officer of the Company, acting as such, and neither the authorization by the Directors nor the execution and delivery by the officer will be deemed to have been made by any of them individually or to impose any liability on any of them personally, but will bind only the property of

the Funds as provided in the Articles of Incorporation. No Fund or Class will be liable for any claims against any other Fund or Class.

Section 14. Effective Dates.

The Plan will become effective with respect to each Class of a Fund upon the date such Fund first commences its investment operations.

Section 15. Governing Law.

This Plan shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

LEHMAN BROTHERS FUNDS, INC.

By:

Name:
Title:

Dated: _____, 1995

APPENDIX A
<TABLE>
<CAPTION>

Name of Fund

Name of Class
Distribution Fee
(expressed as an
annual rate of the
average daily net
assets of the Fund
attributable to
that Class)

<S>
<C>
<C>

Lehman Mexican Growth
and Income Portfolio

(the only existing
class)

0.75%

Lehman Latin America
Dollar Income
Portfolio

(the only existing
class)

0.50%

Lehman Selected Growth
Stock Portfolio

Class A
0.00%

Lehman Selected Growth
Stock Portfolio

Class B
0.75%

Lehman Selected Growth
Stock Portfolio

Class C
0.75%

Lehman Selected Growth
Stock Portfolio

Class W
0.00%

Lehman Selected Growth
Stock Portfolio

Select Shares
0.00%

Lehman Selected Growth
Stock Portfolio

Premier Shares
0.00%

Lehman Brothers
Municipal
Income Fund

Class A
0.00%

Lehman Brothers
Municipal
Income Fund

Class B
0.50%

Lehman Brothers
Municipal
Income Fund

Class C
0.50%

</TABLE>

<TABLE>
<CAPTION>

<S>
<C>
<C>

Lehman Brothers
Municipal
Income Fund

Class W
0.00%

Lehman Brothers
Municipal
Income Fund

Select Shares
0.00%

Lehman Brothers
Municipal
Income Fund

Premier Shares
0.00%

Lehman Brothers Daily
Income Fund

Class A
0.00%

Lehman Brothers Daily
Income Fund

Class B
0.50%

Lehman Brothers Daily
Income Fund

Class C
0.50%

Lehman Brothers Daily
Income Fund

Class W
0.00%

Lehman Brothers Daily
Income Fund

Select Shares
0.00%

Lehman Brothers Daily
Income Fund

Premier Shares
0.00%

Lehman Brothers Global
Emerging Markets Bond
Fund

Class A

0.00%

Lehman Brothers Global
Emerging Markets Bond
Fund

Class B
0.75%

Lehman Brothers Global
Emerging Markets Bond
Fund

Class C
0.75%

Lehman Brothers Global
Emerging Markets Bond
Fund

Class W
0.00%

</TABLE>

<TABLE>
<CAPTION>

<S>
<C>
<C>

Lehman Brothers Global
Emerging Markets Bond
Fund

Select Shares
0.00%

Lehman Brothers Global
Emerging Markets Bond
Fund

Premier Shares
0.00%

Lehman Brothers
Municipal
Bond Fund

Class A
0.00%

Lehman Brothers
Municipal
Bond Fund

Class B
0.50%

Lehman Brothers
Municipal
Bond Fund

Class C
0.50%

Lehman Brothers
Municipal
Bond Fund

Class W
0.00%

Lehman Brothers
Municipal
Bond Fund

Select Shares
0.00%

Lehman Brothers
Municipal
Bond Fund

Premier Shares
0.00%

Lehman Brothers Large
Capitalization U.S.
Equity Fund

Class A
0.00%

Lehman Brothers Large
Capitalization U.S.
Equity Fund

Class B
0.75%

Lehman Brothers Large
Capitalization U.S.
Equity Fund

Class C
0.75%

</TABLE>

<TABLE>
<CAPTION>

<S>
<C>
<C>

Lehman Brothers Large
Capitalization U.S.
Equity Fund

Class W
0.00%

Lehman Brothers Large

Capitalization U.S.
Equity Fund

Select Shares
0.00%

Lehman Brothers Large
Capitalization U.S.
Equity Fund

Premier Shares
0.00%

Lehman Brothers
International
Equity Fund

Class A
0.00%

Lehman Brothers
International
Equity Fund

Class B
0.75%

Lehman Brothers
International
Equity Fund

Class C
0.75%

Lehman Brothers
International
Equity Fund

Class W
0.00%

Lehman Brothers
International
Equity Fund

Select Shares
0.00%

Lehman Brothers
International
Equity Fund

Premier Shares
0.00%

Lehman Brothers
International
Bond Fund

Class A
0.00%

Lehman Brothers
International
Bond Fund

Class B

0.50%

Lehman Brothers
International
Bond Fund

Class C
0.50%

</TABLE>

<TABLE>
<CAPTION>

<S>
<C>
<C>

Lehman Brothers
International
Bond Fund

Class W
0.00%

Lehman Brothers
International
Bond Fund

Select Shares
0.00%

Lehman Brothers
International
Bond Fund

Premier Shares
0.00%

Lehman Brothers Global
Emerging Markets
Equity Fund

Class A
0.00%

Lehman Brothers Global
Emerging Markets
Equity Fund

Class B
0.75%

Lehman Brothers Global
Emerging Markets
Equity Fund

Class C
0.75%

Lehman Brothers Global
Emerging Markets
Equity Fund

Class W
0.00%

Lehman Brothers Global
Emerging Markets
Equity Fund

Select Shares
0.00%

Lehman Brothers Global
Emerging Markets
Equity Fund

Premier Shares
0.00%

Lehman Brothers New
York
Municipal Bond Fund

Class A
0.00%

Lehman Brothers New
York
Municipal Bond Fund

Class B
0.50%

</TABLE>

<TABLE>
<CAPTION>

<S>
<C>
<C>

Lehman Brothers New
York
Municipal Bond Fund

Class C
0.50%

Lehman Brothers New
York
Municipal Bond Fund

Class W
0.00%

Lehman Brothers New
York
Municipal Bond Fund

Select Shares
0.00%

Lehman Brothers New

York
Municipal Bond Fund

Premier Shares
0.00%

Lehman Brothers High-
Grade
Fixed Income Fund

Class A
0.00%

Lehman Brothers High-
Grade
Fixed Income Fund

Class B
0.50%

Lehman Brothers High-
Grade
Fixed Income Fund

Class C
0.50%

Lehman Brothers High-
Grade
Fixed Income Fund

Class W
0.00%

Lehman Brothers High-
Grade
Fixed Income Fund

Select Shares
0.00%

Lehman Brothers High-
Grade
Fixed Income Fund
Premier Shares
0.00%

</TABLE>

- - 1 -

LEHMAN\PROSPECTUS\NYMUNI\SELECT2.DOC

- - 22 -

- - 3 -

- - 22 -

- - 52 -

A-7

- - 43 -

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

<ARTICLE> 6

<SERIES>

<NUMBER> 1

<NAME> LEH BROS FNDS, INC., DLY INCOME FUND-CDSC SHRS

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	JUL-31-1994
<PERIOD-END>	JUL-31-1994
<INVESTMENTS-AT-COST>	809,436,244
<INVESTMENTS-AT-VALUE>	809,436,244
<RECEIVABLES>	32,248,390
<ASSETS-OTHER>	389,216
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	842,073,850
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	23,518,919
<TOTAL-LIABILITIES>	23,518,919
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	818,477,726
<SHARES-COMMON-STOCK>	818,538,361
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	60,635
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	16,570
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	0
<NET-ASSETS>	818,554,931
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	26,779,283
<OTHER-INCOME>	0
<EXPENSES-NET>	4,837,306
<NET-INVESTMENT-INCOME>	21,941,977
<REALIZED-GAINS-CURRENT>	16,570
<APPREC-INCREASE-CURRENT>	0
<NET-CHANGE-FROM-OPS>	21,958,547
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	0
<DISTRIBUTIONS-OF-GAINS>	0
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	100
<NUMBER-OF-SHARES-REDEEMED>	0
<SHARES-REINVESTED>	0
<NET-CHANGE-IN-ASSETS>	818,554,931

<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	2,185,627
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	6,892,136
<AVERAGE-NET-ASSETS>	730,404,506
<PER-SHARE-NAV-BEGIN>	1.00
<PER-SHARE-NII>	0.00
<PER-SHARE-GAIN-APPREC>	0.00
<PER-SHARE-DIVIDEND>	0.00
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	1.00
<EXPENSE-RATIO>	0.00
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 6

<SERIES>

<NUMBER> 1

<NAME> LEH BROS FNDS, INC., DLY INCOME FND-SELECT SHRS

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	JUL-31-1994
<PERIOD-END>	JUL-31-1994
<INVESTMENTS-AT-COST>	809,436,244
<INVESTMENTS-AT-VALUE>	809,436,244
<RECEIVABLES>	32,248,390
<ASSETS-OTHER>	389,216
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	842,073,850
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	23,518,919
<TOTAL-LIABILITIES>	23,518,919
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	818,477,726
<SHARES-COMMON-STOCK>	818,538,361
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	60,635
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	16,570
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	0
<NET-ASSETS>	818,554,931
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	26,779,283
<OTHER-INCOME>	0
<EXPENSES-NET>	4,837,306
<NET-INVESTMENT-INCOME>	21,941,977
<REALIZED-GAINS-CURRENT>	16,570
<APPREC-INCREASE-CURRENT>	0
<NET-CHANGE-FROM-OPS>	21,958,547
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	(21,941,977)
<DISTRIBUTIONS-OF-GAINS>	0
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	4,591,256,544
<NUMBER-OF-SHARES-REDEEMED>	(3,792,217,038)
<SHARES-REINVESTED>	19,498,755
<NET-CHANGE-IN-ASSETS>	818,554,931
<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0

<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	2,185,627
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	6,892,136
<AVERAGE-NET-ASSETS>	730,404,506
<PER-SHARE-NAV-BEGIN>	1.00
<PER-SHARE-NII>	0.03
<PER-SHARE-GAIN-APPREC>	0.00
<PER-SHARE-DIVIDEND>	(0.03)
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	1.00
<EXPENSE-RATIO>	0.66
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

<ARTICLE> 6

<SERIES>

<NUMBER> 2

<NAME> LEH BROS FNDS, INC., MUNI INC. FUND, CDSC SHRS

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	JUL-31-1994
<PERIOD-END>	JUL-31-1994
<INVESTMENTS-AT-COST>	262,996,410
<INVESTMENTS-AT-VALUE>	262,996,410
<RECEIVABLES>	6,118,420
<ASSETS-OTHER>	173,528
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	269,288,358
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	4,853,343
<TOTAL-LIABILITIES>	4,853,343
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	264,424,228
<SHARES-COMMON-STOCK>	264,447,342
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	23,114
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(12,327)
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	0
<NET-ASSETS>	264,435,015
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	6,046,443
<OTHER-INCOME>	0
<EXPENSES-NET>	1,438,151
<NET-INVESTMENT-INCOME>	4,608,292
<REALIZED-GAINS-CURRENT>	(12,327)
<APPREC-INCREASE-CURRENT>	0
<NET-CHANGE-FROM-OPS>	4,595,965
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	(13)
<DISTRIBUTIONS-OF-GAINS>	0
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	9,888
<NUMBER-OF-SHARES-REDEEMED>	0
<SHARES-REINVESTED>	0
<NET-CHANGE-IN-ASSETS>	0

<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	670,015
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	1,994,070
<AVERAGE-NET-ASSETS>	233,955,050
<PER-SHARE-NAV-BEGIN>	1.00
<PER-SHARE-NII>	0.00
<PER-SHARE-GAIN-APPREC>	0.00
<PER-SHARE-DIVIDEND>	(0.00)
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	1.00
<EXPENSE-RATIO>	0.64
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 6

<SERIES>

<NUMBER> 2

<NAME> LEH BROS FNDS, INC., MUNI INC. FUND, SELECT SHRS

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	JUL-31-1994
<PERIOD-END>	JUL-31-1994
<INVESTMENTS-AT-COST>	262,996,410
<INVESTMENTS-AT-VALUE>	262,996,410
<RECEIVABLES>	6,118,420
<ASSETS-OTHER>	173,528
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	269,288,358
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	4,853,343
<TOTAL-LIABILITIES>	4,853,343
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	264,424,228
<SHARES-COMMON-STOCK>	264,447,342
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	23,114
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(12,237)
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	0
<NET-ASSETS>	264,435,015
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	6,046,443
<OTHER-INCOME>	0
<EXPENSES-NET>	1,438,151
<NET-INVESTMENT-INCOME>	4,608,292
<REALIZED-GAINS-CURRENT>	(12,327)
<APPREC-INCREASE-CURRENT>	0
<NET-CHANGE-FROM-OPS>	4,595,965
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	(4,608,279)
<DISTRIBUTIONS-OF-GAINS>	0
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	1,214,682,908
<NUMBER-OF-SHARES-REDEEMED>	(954,395,614)
<SHARES-REINVESTED>	4,150,160
<NET-CHANGE-IN-ASSETS>	264,435,015
<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0

<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	670,015
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	1,994,070
<AVERAGE-NET-ASSETS>	233,955,050
<PER-SHARE-NAV-BEGIN>	1.00
<PER-SHARE-NII>	0.02
<PER-SHARE-GAIN-APPREC>	0.00
<PER-SHARE-DIVIDEND>	(0.02)
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	1.00
<EXPENSE-RATIO>	0.64
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<TABLE> <S> <C>

<ARTICLE> 6

<SERIES>

<NUMBER> 0

<NAME> LEH BROS FNDS, INC., SELECTED GR STOCK FUND

<S>	<C>
<PERIOD-TYPE>	4-6-MOS
<FISCAL-YEAR-END>	JUL-31-1994
<PERIOD-END>	SEP-30-1994
<INVESTMENTS-AT-COST>	30,945,909
<INVESTMENTS-AT-VALUE>	32,085,174
<RECEIVABLES>	609,070
<ASSETS-OTHER>	117,342
<OTHER-ITEMS-ASSETS>	2,000
<TOTAL-ASSETS>	32,813,586
<PAYABLE-FOR-SECURITIES>	2,230,228
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	103,369
<TOTAL-LIABILITIES>	2,333,597
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	29,277,771
<SHARES-COMMON-STOCK>	2,966,398
<SHARES-COMMON-PRIOR>	2,706,412
<ACCUMULATED-NII-CURRENT>	42,712
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(8,570)
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	1,168,076
<NET-ASSETS>	30,479,989
<DIVIDEND-INCOME>	26,713
<INTEREST-INCOME>	82,944
<OTHER-INCOME>	0
<EXPENSES-NET>	105,057
<NET-INVESTMENT-INCOME>	4,600
<REALIZED-GAINS-CURRENT>	211,384
<APPREC-INCREASE-CURRENT>	1,297,351
<NET-CHANGE-FROM-OPS>	1,513,335
<EQUALIZATION>	0
<DISTRIBUTIONS-OF-INCOME>	0
<DISTRIBUTIONS-OF-GAINS>	0
<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	291,722
<NUMBER-OF-SHARES-REDEEMED>	(31,736)
<SHARES-REINVESTED>	0
<NET-CHANGE-IN-ASSETS>	4,138,795

<ACCUMULATED-NII-PRIOR>	38,112
<ACCUMULATED-GAINS-PRIOR>	(219,954)
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	47,808
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	146,282
<AVERAGE-NET-ASSETS>	29,014,610
<PER-SHARE-NAV-BEGIN>	9.73
<PER-SHARE-NII>	0.00
<PER-SHARE-GAIN-APPREC>	0.54
<PER-SHARE-DIVIDEND>	0.00
<PER-SHARE-DISTRIBUTIONS>	0.00
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	10.27
<EXPENSE-RATIO>	2.17
<AVG-DEBT-OUTSTANDING>	0
<AVG-DEBT-PER-SHARE>	0

</TABLE>