SUPERIOR INDUSTRIES INTERNATIONAL INC
Form 10-K
March 21, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 26, 2010
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________
Commission file number 1-6615
SUPERIOR INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

California	95-2594729
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
7800 Woodley Avenue, Van Nuys, California	91406
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: (818) 781-4973
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]
Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the registrant's no par value common equity held by non-affiliates as of the last business day of the registrant's most recently completed second quarter was $395,285,000, based on a closing price of $14.80. On March 4, 2011, there were 26,866,290 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2011 Annual Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

SUPERIOR INDUSTRIES INTERNATIONAL, INC.
ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in “Management's Discussion and Analysis of Financial Condition and Results of Operations,” "Letter to Shareholders” and elsewhere in this report constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These forward-looking statements are based upon management's current expectations, estimates, assumptions and beliefs concerning future events and conditions and may discuss, among other things, anticipated future performance (including sales and earnings), expected growth, future business plans and costs and potential liability for environmental-related matters. Any statement that is not historical in nature is a forward-looking statement and may be identified by the use of words and phrases such as “expects,” “anticipates,” “believes,” “will,” “will likely result,” “will continue,” “plans to” and similar expressions.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, that could cause actual results to differ materially from such statements and from the Company's historical results and experience. These risks, uncertainties and other factors include, but are not limited to, those risks described in Item 1A - Risk Factors of this Annual Report on Form 10-K and elsewhere in the Annual Report and those described from time to time in our future reports filed with the Securities and Exchange Commission.

Readers are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results and that the above list should not be considered to be a complete list. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1 - BUSINESS

General Development and Description of Business

Headquartered in Van Nuys, California, the principal business of Superior Industries International, Inc. (referred to herein as the “company” or in the first person notation “we,” “us” and “our”) is the design and manufacture of aluminum road wheels for sale to original equipment manufacturers (OEM). The company was initially incorporated in Delaware in 1969 and reincorporated in California in 1994, as the successor to three businesses founded by Louis L. Borick, Founding Chairman and a Director of the company. These businesses had been engaged in the design, manufacture and sale of automotive accessories and related aftermarket products since 1957. All of the aftermarket businesses were sold or discontinued by the end of 2002. Our entry into the OEM aluminum road wheel business in 1973 resulted from our successful development of manufacturing technology, quality control and quality assurance techniques that enabled us to satisfy the quality and volume requirements of the OEM market for aluminum road wheels. The first aluminum road wheel for a domestic OEM customer was a Mustang wheel for Ford Motor Company (Ford).

We are now one of the largest suppliers of cast aluminum wheels to the world's leading automobile and light truck manufacturers, with wheel manufacturing operations in the United States and Mexico. Customers in North America represent the principal market for our products. In addition, the majority of our net sales to international customers by our North American facilities are delivered primarily to such customers' assembly operations in North America. Our OEM aluminum road wheels are sold for factory installation, or as optional or standard equipment on many vehicle models, to Ford, General Motors (GM), Chrysler Group LLC (Chrysler), BMW, Mitsubishi, Nissan, Subaru, Toyota and Volkswagen. We currently supply cast aluminum wheels for many North American model passenger cars and light trucks.

The company's chief operating decision maker (CODM) is the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. The CODM evaluates both consolidated and disaggregated financial information for each of the company's business units in deciding how to allocate resources and assess performance. Each manufacturing facility manufactures the same products, ships product to the same group of customers, utilizes the same cast manufacturing process and as a result, production can generally be transferred amongst our facilities. Accordingly, we operate as a single integrated business and, as such, have only one operating segment - automotive wheels. Financial information about this segment and geographic areas is contained in Note 2 - Business Segments in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report.

The availability and demand for aluminum wheels are subject to unpredictable factors, such as changes in the general economy, the automobile industry, gasoline prices, consumer credit availability and interest rates. Beginning with the third quarter of 2008, the automotive industry was negatively impacted by the continued dramatic shift away from full-size trucks and SUVs caused by continuing high fuel prices, rapidly rising commodity prices and the tightening of consumer credit due to the then deteriorating financial markets. Accordingly, our OEM customers announced unprecedented restructuring actions, including assembly plant closures, significant reductions in production of light trucks and SUVs, delayed launches of key 2009 model-year light truck programs and movement toward more fuel-efficient passenger cars and cross-over type vehicles. These restructuring actions culminated in the bankruptcy reorganization of Chrysler and GM in 2009. Following steep declines in 2009, automotive markets have experienced significant recovery in 2010, especially in North America. According to Ward's Automotive Group, production of automobiles and light-duty trucks in North America reached 11.9 million vehicles in 2010, an increase of 3.3 million, or 39 percent, from 8.6 million in 2009. Conversely, 2009 production decreased 4.0 million, or 32 percent, from 12.6

million in 2008. This relatively recent history from 2008 to 2010 reflects the high degree of volatility that our customers and the market for our products can experience.

While we historically have had long-term relationships with our customers and our supply arrangements are generally for multi-year periods, maintaining such long-term arrangements on terms acceptable to us has become increasingly difficult. Despite recovery of the market for our products in 2010, global competitive pricing pressures continue to affect our business negatively as our customers maintain and/or further develop alternative supplier options. We are engaged in ongoing programs to reduce our own costs through improved operational and procurement practices in an attempt to mitigate the impact of these pricing pressures. However, these improvement programs may not be sufficient to offset the adverse impact of ongoing pricing pressures and potential reductions in customer demand in future periods. Additional factors such as inconsistent customer ordering patterns, increasing product complexity and heightened quality standards also are making it increasingly more difficult to reduce our costs. It is also possible that as we incur costs to implement improvement strategies, the initial impact on our financial position, results of operations and cash flow may be negative.

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We have taken significant steps in the past to reduce our overall costs, including rationalizing our production capacity in response to the late 2008 and 2009 announcements by our major customers of assembly plant closures and sweeping production cuts, particularly in the light truck and SUV platforms. In August 2008, we announced the planned closure of our wheel manufacturing facility located in Pittsburg, Kansas, and workforce reductions in our other North American plants, resulting in the layoff of approximately 665 employees and the elimination of 90 open positions. On January 13, 2009, we also announced the planned closure of our Van Nuys, California wheel manufacturing facility, thereby eliminating an additional 290 jobs. The Kansas and California facilities ceased operations in December 2008 and June 2009, respectively.

Due to the deteriorating financial condition of our major customers and others in the automotive industry in 2009, we performed quarterly impairment analyses on all of our long-lived assets throughout 2009, in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP). Based on these analyses, we concluded during the first quarter of 2009 that estimated future undiscounted cash flows of our Fayetteville, Arkansas manufacturing facility would not be sufficient to recover the carrying value of our long-lived assets attributable to that facility. As a result, we recorded a pretax asset impairment charge against earnings totaling $8.9 million during the first quarter of 2009, reducing the $18.2 million carrying value of certain assets at this facility to their respective estimated fair values. The estimated fair values of the long-lived assets at our Fayetteville, Arkansas manufacturing facility were based, in part, on the estimated fair values of comparable properties. See Note 15 - Impairment of Long-Lived Assets and Other Charges in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report for a further discussion of the impairment of our Fayetteville, Arkansas manufacturing facility.

Additionally, our 50 percent-owned joint venture in Hungary was also affected by these same economic conditions. As a result, management of the joint venture had performed quarterly impairment analyses on all of its long-lived assets in accordance with U.S. GAAP. During the fourth quarter of 2009, this analysis indicated that the estimated undiscounted future cash flows were not sufficient to cover the carrying value of the asset group, which resulted in an impairment of the long-lived assets of the group. We recorded our share of the charge, or $14.4 million, in our equity in earnings (losses) from joint ventures during the fourth quarter of 2009. During the second quarter of 2010, we sold our investment in Suoftec Light Metal Products Production & Distribution Ltd (Suoftec), our joint venture manufacturing facility in Hungary. See Note 6 - Investment in Joint Ventures in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report for a further discussion of the sale of Suoftec.

Raw Materials

The raw materials used in producing our products are readily available and are obtained through numerous suppliers with whom we have established trade relations. We purchase aluminum for the manufacture of our aluminum road wheels, which accounted for substantially all of our total raw material requirements during 2010. The majority of our aluminum requirements are met through purchase orders with several major domestic and foreign producers. Generally, the orders are fixed as to minimum and maximum quantities of aluminum, which the producers must supply during the term of the orders. During 2010, we were able to successfully secure aluminum commitments from our primary suppliers to meet production requirements and we anticipate being able to source aluminum requirements to meet our expected level of production in 2011. We procure other raw materials through numerous suppliers with whom we have established trade relationships.

When market conditions warrant, we may also enter into purchase commitments to secure the supply of certain commodities used in the manufacture of our products, such as aluminum, natural gas and other raw materials. We currently have several purchase commitments in place for the delivery of natural gas through 2012. These natural gas contracts are considered to be derivatives under U.S. GAAP, and when entering into these contracts, it was expected that we would take full delivery of the contracted quantities of natural gas over the normal course of business. Accordingly, at inception, these contracts qualified for the normal purchase, normal sale (NPNS) exemption provided for under U.S. GAAP. As such, we do not account for these purchase commitments as derivatives unless there is a change in facts or circumstances in regard to the company's intent or ability to use the contracted quantities of natural gas over the normal course of business. See Note 11 - Commitments and Contingent Liabilities in Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data of this Annual Report for further discussion of natural gas contracts.

Seasonal Variations

The automotive industry is cyclical and varies based on the timing of consumer purchases of vehicles, which in turn vary based on a variety of factors such as general economic conditions, availability of consumer credit, interest rates and fuel costs. While there have been no significant seasonal variations in the past few years, production schedules in our industry can vary significantly from quarter to quarter to meet the scheduling demands of our customers.

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Customer Dependence

We have proven our ability to be a consistent producer of quality aluminum wheels with the capability to meet our customers' price, quality, delivery and service requirements. We strive to continually enhance our relationships with our customers through continuous improvement programs, not only through our manufacturing operations but in the engineering, wheel development and quality areas as well. These key business relationships have resulted in multiple vehicle supply contract awards with our key customers over the past year.

Ford, GM and Chrysler were our only customers accounting for more than 10 percent of our consolidated net sales in 2010. Sales to GM, as a percentage of consolidated net sales and in dollars, were 33 percent, or $236.9 million, in 2010; 34 percent, or $143.4 million, in 2009; and 40 percent, or $298.1 million, in 2008. Sales to Ford, as a percentage of consolidated net sales and in dollars, were 33 percent, or $239.6 million, in 2010; 35 percent, or $146.1 million, in 2009; and 28 percent, or $213.5 million, in 2008. Sales to Chrysler, as a percentage of consolidated net sales and in dollars, were 14 percent, or $97.7 million, in 2010; 12 percent, or $52.0 million, in 2009; and 14 percent, or $107.0 million, in 2008.

The loss of all or a substantial portion of our sales to Ford, GM or Chrysler would have a significant adverse effect on our financial results, unless the lost sales volume could be replaced. However, based on our lack of ability to control industry volatility and given the continued competitive intensity in the market for our products, we cannot provide any assurance that any lost sales volume could be replaced despite historical relationships with our customers.

Net Sales Backlog

We receive OEM purchase orders to produce aluminum road wheels typically for multiple model years. These purchase orders are for vehicle wheel programs that usually last three to five years. However, customers can impose competitive pricing provisions in those purchase orders each year, thereby reducing our profit margins or increasing the risk of our losing future sales under those purchase orders. We manufacture and ship based on customer release schedules, normally provided on a weekly basis, which can vary due to cyclical automobile production or high dealer inventory levels. Accordingly, even though we have purchase orders covering multiple model years, weekly release schedules can vary with customer demand, thus our management does not believe that our firm backlog is a meaningful estimate of future operating results.

Competition

The market for aluminum road wheels is highly competitive based primarily on price, technology, quality, delivery and overall customer service. We are one of the leading suppliers of aluminum road wheels for OEM installations in the world. We supply approximately 30 to 35 percent of the aluminum wheels installed on passenger cars and light trucks in North America. Competition is global in nature with growing exports from Asia into North America. There are several competitors with facilities in North America, none of which represent greater than 10 percent of the total North American production capacity. See additional comments concerning competition in Item 1A - Risk Factors of this Annual Report below. Other types of road wheels, such as those made of steel also compete with our products. According to Ward's Automotive Group, the aluminum wheel installation rate on passenger cars and light trucks in the U.S. was 65 percent for the 2010 model year compared to 64 percent for the 2009 model year and 65 percent for the 2008 model year. Aluminum wheel installation rates have increased to this level since the mid-1980s, when this rate was only 10 percent. However, we expect the more recent trend of slow growth or no growth in aluminum wheel installation rates to continue. Despite the 2010 recovery in overall demand for our products, the rationalization of our production capacity in late 2008 and 2009 also will limit our ability to increase our market share. In addition, our ability to grow in the future may be negatively impacted by continued customer pricing pressures and overall economic conditions that impact the sales of passenger cars and light trucks, such as continued fluctuating fuel prices and constraints on available consumer credit.

Research and Development

Our policy is to continuously review, improve and develop our engineering capabilities to satisfy our customer requirements in the most efficient and cost effective manner available. We strive to achieve this objective by attracting and retaining top engineering talent and by maintaining the latest state-of-the-art computer technology to support engineering development. A fully staffed engineering center, located in Fayetteville, Arkansas, supports our research and development manufacturing needs. We also have a technical center in Detroit, Michigan, that maintains a complement of engineering staff centrally located near our largest customers' headquarters, engineering and purchasing offices.

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Research and development costs (primarily engineering and related costs), which are expensed as incurred, are included in cost of sales in the consolidated statements of operations. Amounts expended on research and development costs during each of the last three years were $4.9 million in 2010; $3.1 million in 2009; and $4.7 million in 2008. The decrease experienced in 2009 was due to closure of our engineering center in Van Nuys, California, and the reduction of wheel program development activities in that year.

Government Regulation

Safety standards in the manufacture of vehicles and automotive equipment have been established under the National Traffic and Motor Vehicle Safety Act of 1966. We believe that we are in compliance with all federal standards currently applicable to OEM suppliers and to automotive manufacturers.

Environmental Compliance

Our manufacturing facilities, like most other manufacturing companies, are subject to solid waste, water and air pollution control standards mandated by federal, state and local laws. Violators of these laws are subject to fines and, in extreme cases, plant closure. We believe our facilities are substantially in compliance with all standards presently applicable. However, costs related to environmental protection may grow due to increasingly stringent laws and regulations. The cost of environmental compliance was approximately $0.4 million in 2010; $0.7 million in 2009; and $1.0 million in 2008. We expect that future environmental compliance expenditures will approximate these levels and will not have a material effect on our consolidated financial position.

Employees

As of December 31, 2010, we had approximately 3,500 full-time employees in our North American operations compared to approximately 3,000 employees at December 31, 2009. Our joint venture manufacturing facility in Hungary, which was sold in June 2010, employed approximately 500 full-time employees at December 31, 2009. None of our employees are part of a collective bargaining agreement.

Fiscal Year End

Our fiscal year is the 52- or 53-week period ending on the last Sunday of the calendar year. The fiscal years 2010, 2009, and 2008 comprised the 52-week periods ended December 26, 2010, December 27, 2009 and December 28, 2008, respectively. For convenience of presentation, all fiscal years are referred to as beginning as of January 1 and ending as of December 31, but actually reflect our financial position and results of operations for the periods described above.

Available Information

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information statements, and any amendments thereto are available, without charge, on or through our website www.supind.com under “Investor”, as soon as reasonably practicable after they are filed electronically with the Securities and Exchange Commission (SEC). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, which contains these reports, proxy and information statements and other information regarding the company. Also included on our website, www.supind.com under "Investors" is our Code of Business Conduct and Ethics, which, among others, applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, and our SEC filings. Copies of all SEC filings and our Code of Business Conduct and Ethics are also available, without charge, upon request from Superior Industries International, Inc., Shareholder Relations, 7800 Woodley Avenue, Van Nuys, CA 91406.

ITEM 1A – RISK FACTORS

The following discussion of risk factors contains "forward-looking" statements, which may be important to understanding any statement in this Annual Report or elsewhere. The following information should be read in conjunction with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Item 8 - Financial Statements and Supplementary Data of this Annual Report.

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Our business routinely encounters and addresses risks and uncertainties. Our business, results of operations and financial condition could be materially adversely affected by the factors described below. Discussion about the important operational risks that our businesses encounter can also be found in the MD&A section and in the business description in Item 1 - Business of this Annual Report. Below, we have described our present view of certain risks and uncertainties we face. Additional risks and uncertainties not presently known to us, or that we currently do not consider significant, could also potentially impair our business, results of operations and financial condition. Our reactions to these risks and uncertainties as well as our competitors' reactions will affect our future operating results.

Risks Relating To Our Company

Current Economic and Financial Market Conditions - Global economic and financial market conditions, including severe disruptions in the credit markets and potential weakness, stalling or even reversal in the recovery from global economic recession, may materially and adversely affect our results of operations and financial condition. These conditions had a significant negative impact in 2009 on the automotive industry generally and the financial stability of our customers, suppliers and other parties with whom we do business. Specifically, the impact of these volatile and negative conditions may include: decreased demand for automobiles and our products; negative impact on the financial position of our OEM customers; our decreased ability to accurately forecast future product trends and demand; and a negative impact on our ability to timely collect receivables from our customers and, conversely, reductions in the level and tightening of terms of trade credit available to us.

Automotive Industry Trends - The majority of our sales are made in domestic U.S. markets and almost exclusively within North America. Therefore, our financial performance depends largely on conditions in the U.S. automotive industry, which in turn can be affected significantly by broad economic and financial market conditions as noted above. Consumer demand for automobiles is subject to considerable volatility as a result of consumer confidence in general economic conditions, levels of employment and prevailing wages, fuel prices and the availability of consumer credit. As previously discussed, our results for fiscal year 2009 were negatively impacted by severe reductions in customer demand. In reaction to the steep decline in demand in 2009, a significant number of our customers announced restructuring actions, including bankruptcy reorganizations, planned assembly plant closures, delays in launching key 2009 model-year light truck programs, and other actions to accelerate movement toward more fuel-efficient passenger cars and crossover-type vehicles. Although 2010 has witnessed significant recovery in demand for vehicles and our products, the events of 2009 demonstrate the degree to which industry volatility can occur and be beyond the control of industry participants. There can be no assurances that industry recovery occurring in 2010 will continue or that negative reversal of such recovery, including the degree of such reversal, will not occur in the future.

Customer Concentration - GM, Ford and Chrysler, together represented approximately 80 percent of our total wheel sales in 2010. During 2009, both Chrysler and GM were forced to reorganize their businesses under Chapter 11 of the U.S. Bankruptcy Code. While the reorganizations of GM and Chrysler have been aided in-part by the 2010 recovery of vehicle demand, there can be no assurances as to the future success of these reorganizations. There also can be no assurances that other restructurings within the automotive industry will not occur and negatively affect the company.

Furthermore, our OEM customers are not required to purchase any minimum amount of products from us. The contracts we have entered into with most of our customers provide that we will provide wheels for a particular vehicle model, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model (usually three to five years), typically are non-exclusive, and do not require the purchase by the customer of any minimum number of wheels from us. Therefore, a significant decrease in demand for certain key models or group of related models sold by any of our major customers, or a decision by a manufacturer not to purchase from us, or to discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us.

Difficulties Associated with Fixed Capacity Levels - As a result of increased consumer demand for automobiles, as well as actions previously taken by us to rationalize the costs associated with our business, we operated our business at near full capacity levels for much of 2010. Our ability to increase manufacturing capacity may require significant investments in equipment and personnel. To the extent that we make investments to increase manufacturing capacity and demand for our products is not sustained, our results of operations and financial condition may be adversely affected. Conversely, if we choose not to make investments to increase manufacturing capacity, our ability to meet customer demand for our products and increase revenues may be adversely affected.

Expiration of Government Programs - The federal government has, during past episodes of significant economic weakness, enacted various measures to support the financial health of the automotive industry, including the provision of emergency financing to Chrysler and GM, including in connection with their Chapter 11 bankruptcy restructurings, the Car Allowance Rebate System

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(also known as “cash for clunkers") and other programs designed to increase consumer spending. There are no assurances that federal or state governments will enact similar programs during future periods of economic weakness, and the failure of federal or state governments to do so could have an adverse effect on our business.

Global Pricing Pressure - Our OEM customers typically attempt to qualify more than one wheel supplier for the programs we participate on and for future programs we may bid on. Multiple sourcing capability and available competitive manufacturing capacity continues to exert downward pressure on pricing. These competitive pressures are expected to continue and may result in decreased sales volumes and unit price reductions, resulting in lower revenues, gross profit and operating income and cash flows.

Additionally, the vehicle market is highly competitive at the OEM level, which drives continual cost-cutting initiatives by our customers. Our OEM customers historically have reacted by exerting significant leverage over their outside suppliers. Customer concentration, relative supplier fragmentation and product commoditization have translated into continual pressure from OEMs to reduce the price of our products. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our gross margin, rate of profitability and cash flows would be adversely affected. In addition, changes in OEMs' purchasing policies or payment practices could have an adverse effect on our business.

Competition - The automotive component supply industry is highly competitive, both domestically and internationally. Competition is based primarily on price, technology, quality, delivery and overall customer service. Some of our competitors are companies, or divisions or subsidiaries of companies that are larger and have greater financial and other resources than we do. We cannot ensure that our products will be able to compete successfully with the products of these competitors. Furthermore, the rapidly evolving nature of the markets in which we compete has attracted new entrants, particularly in low cost countries. As a result, our sales levels and margins are being adversely affected by pricing pressures caused by such new entrants, especially in low-cost foreign markets, such as China. Such new entrants with lower cost structures pose a significant threat to our ability to compete internationally and domestically. These factors led to selective sourcing of future business by our customers to foreign competitors in the past and they may continue to do so in the future. In addition, any of our competitors may foresee the course of market development more accurately than we are able to, develop products that are superior to our products, have the ability to produce similar products at a lower cost than we do, or adapt more quickly than we do to new technologies or evolving customer requirements. As a result, our products may not be able to compete successfully with their products. As a result of highly competitive market conditions in our industry, a number of our competitors have been forced to seek bankruptcy protection. These competitors may emerge and in some cases have emerged from bankruptcy protection with stronger balance sheets and a desire to gain market share by offering their products at a lower price than our products, which would have an adverse impact on our financial condition and results of operations and cash flows.

Dependence on Third-Party Suppliers and Manufacturers - Generally, we obtain our raw materials, supplies and energy requirements from various sources. Although we currently maintain alternative sources, our business is subject to the risk of price increases and periodic delays in delivery. Fluctuations in the prices of raw materials may be driven by the supply/demand relationship for that commodity or governmental regulation. In addition, if any of our suppliers seek bankruptcy relief or otherwise cannot continue their business as anticipated, the availability or price of raw materials could be adversely affected.

Although we are able to periodically pass aluminum cost increases onto our customers, we may not be able to pass along all changes in aluminum costs and our customers are not obligated to accept energy or other supply cost increases that we may attempt to pass along to them. In addition, fixed price natural gas contracts that expire in the future may expose us to higher costs that cannot be immediately recouped in selling prices. This inability to pass on these cost increases to our customers could adversely affect our operating margins and cash flow, possibly resulting in lower operating income and profitability.

Unexpected Production Interruptions - An interruption in production capabilities at any of our facilities as a result of equipment failure, interruption of raw material or other supplies, labor disputes or other reasons could result in our inability to produce our products, which would reduce our sales and operating results for the affected period. We have, from time to time, undertaken significant re-tooling and modernization initiatives at our facilities which in the past have caused, and in the future may cause, unexpected delays and plant underutilization, and such adverse consequences may continue to occur as we continue to modernize our production facilities. In addition, we generally deliver our products only after receiving the order from the customer and thus do not hold large inventories. In the event of a stoppage in production at any of our manufacturing facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times could be severely affected. Any significant delay in deliveries to our customers could lead to returns or cancellations and cause us to lose future sales, as well as expose us to claims for damages. Our manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, earthquakes, explosions or violent weather conditions. We have in the past and may in the future experience

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plant shutdowns or periods of reduced production as a result of facility modernization initiatives, equipment failure, delays in deliveries or catastrophic loss, which could have a material adverse effect on our results of operations or financial condition.

It also is possible that our customers may experience production delays for a variety of reasons, which in-part could include supply-chain disruption for parts other than wheels that negatively affect assembly rates of vehicles using our parts, equipment breakdowns or other events affecting assembly rates that impact us, work stoppages or slow-downs at factories where our products are consumed, or even catastrophic events such as fires, disruptive weather conditions or natural disasters.

Valuation of Deferred Tax Assets - During 2009, we established a valuation allowance against all of our domestic deferred tax assets and against our foreign net operating loss carryforwards. If we are unable to look to future taxable income as a source of income we may be required to record further valuation allowances in the future.

Dependence on Key Personnel - Our success depends in part on our ability to attract, hire, train, and retain qualified managerial, engineering, sales and marketing personnel. We face significant competition for these types of employees in our industry. We may be unsuccessful in attracting and retaining the personnel we require to conduct our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends to a significant extent on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced senior employees could impair our ability to execute our business plans and strategic initiatives, cause us to lose customers and experience reduced net sales, or lead to employee morale problems and/or the loss of other key employees. In any such event, our financial condition, results of operations, internal control over financial reporting, or cash flows could be adversely affected.

Effective Internal Control Over Financial Reporting - Management is responsible for establishing and maintaining adequate internal control over financial reporting. Many of our key controls rely on maintaining a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of accounting principles generally accepted in the United States of America in order to operate effectively. During the fourth quarter of 2010, we identified two material weaknesses in our internal accounting controls, and additional material weaknesses or other deficiencies may be identified in the future. If we are unable to remediate our existing material weaknesses in a timely matter, or fail to attract, hire, train and retain a sufficient complement of qualified personnel required to operate these controls effectively our financial statements may contain material misstatements, unintentional errors, or omissions and late filings with regulatory agencies may occur.

Impact of Aluminum Pricing - The cost of aluminum is a significant component in the overall cost of a wheel and a portion of our selling prices to OEM customers is attributable to the cost of aluminum. The price for aluminum we purchase is adjusted monthly based generally on changes in certain published market indices. Our selling prices are adjusted periodically based upon aluminum market price changes, but the timing of such adjustments are based on specific customer agreement and can vary from monthly, to quarterly to semi-annually. In addition, the timing of aluminum price adjustments flowing through sales rarely will match the timing of such changes in cost. This is especially true during periods of frequent increases or decreases in the market price of aluminum and when a portion of our aluminum purchases is via long-term fixed purchase agreements. Accordingly, our gross profit is subject to fluctuations, since the change in the product selling prices related to the cost of aluminum does not necessarily match the change in the aluminum raw material purchase prices during the period being reported, which may have a material adverse effect on our operating results for the period being reported.

Legal Proceedings - The nature of our business subjects us to litigation in the ordinary course of our business. We are exposed to potential product liability and warranty risks that are inherent in the design, manufacture and sale of automotive products, the failure of which could result in property damage, personal injury or death. Accordingly, individual or class action suits alleging product liability or warranty claims could result. Although we currently maintain what we believe to be suitable and adequate product liability insurance in excess of our self-insured amounts, we cannot assure you that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against potential liabilities. In addition, if any of our products prove to be defective, we may be required to participate in a recall involving such products. A successful claim brought against us in excess of available insurance coverage, if any, or a requirement to participate in any product recall, could have a material adverse effect on our results of operations or financial condition. We cannot assure you that any current or future claims will not adversely affect our cash flows, financial condition or results of operations.

Implementation of New Systems - We implemented a new enterprise resource planning system as of the beginning of the second quarter of 2010. We encountered technical and operating difficulties during and following the implementation process, as our employees learned and operated the new system which is critical to the management of and reporting of results for our operations. The difficulties we encountered affected our internal control over financial reporting and also prevented us from effectively reporting our financial results in a timely manner. Any similar disruption while implementing other new systems could have a material adverse impact on our financial condition, cash flows or results of operations. In addition, the costs incurred in correcting any errors or problems with the new system could be substantial.

Implementation of Operational Improvements - As part of our ongoing focus on being a low-cost provider of high quality products, we continually analyze our business to further improve our operations and identify cost-cutting measures. Our continued analysis may include identifying and implementing opportunities for: (i) further rationalization of manufacturing capacity; (ii) streamlining of marketing and general and administrative overhead; (iii) implementation of lean manufacturing and Six Sigma initiatives; or (iv) efficient investment in new equipment and technologies and the upgrading of existing equipment. We may be unable to successfully identify or implement plans targeting these initiatives, or fail to realize the benefits of the plans we have already implemented, as a result of operational difficulties, a weakening of the economy or other factors.

Cost reductions may not fully offset decreases in the prices of our products due to the time required to develop and implement cost reduction initiatives. In addition, fixed price natural gas contracts that expire in tN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt">
Some of our investments are relatively illiquid and are in asset classes that have been experiencing significant market valuation fluctuations.

We hold certain investments that may lack liquidity, such as privately placed fixed maturity securities; mortgage loans; policy loans; and equity real estate, including real estate joint venture; and other limited partnership interests. These asset classes represented 27% of the carrying value of our total cash and invested assets as of September 30, 2008. Even some of our very high quality assets have been more illiquid as a result of the recent challenging market conditions.

If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we will be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

We invest a portion of our invested assets in investment funds, many of which make private equity investments. The amount and timing of income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income that we record from these investments can vary substantially from quarter to quarter. Recent equity and credit market volatility may reduce investment income for these types of investments.

The determination of the amount of allowances and impairments taken on our investments is highly subjective and could materially impact our results of operations or financial position.

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

For example, the cost of our fixed maturity and equity securities is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. The assessment of whether impairments have occurred is based on management’s case-by-case evaluation of the underlying reasons for the decline in fair value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to: 1) our ability and intent to hold the security for a sufficient period of time to allow for a recovery in value; 2) the cause of the decline; 3) fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer; and 4) severity of the decline in value.

Additionally, our management considers a wide range of factors about the security issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management’s evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Another key factor in whether determining an other-than-temporary impairment has occurred is our “intent or ability to hold to recovery or maturity.” In the event that we determine that we do not have the intent or ability to hold to recovery or maturity, we are required to write down the security. A write-down is necessary even in situations where the unrealized loss is not due to an underlying credit issue, but may be solely related to the impact of changes in interest rates on the fair value of the security. Where such analysis results in a conclusion that declines in fair values are other-than-temporary, the security is written down to fair value.

Our gross unrealized losses on fixed maturity securities available-for-sale at September 30, 2008, were $4.8 billion pre-tax and the component of gross unrealized losses for securities trading down 20% or more for six months is approximately $2.4 billion pre-tax. Related to our unrealized losses we establish deferred tax assets for the tax benefit we may receive in the event that losses are realized. The realization of significant realized losses could result in an inability to recover the tax benefits and may result in the establishment of valuation allowances against our deferred tax assets. Realized losses or impairments may have a material adverse impact on our results of operation and financial position.

A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors.

Nationally recognized rating agencies rate the financial strength of our principal insurance subsidiaries and rate our debt. Ratings are not recommendations to buy our securities. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future. Please see “Item 1. Business - Ratings” in LNC’s Annual Report on Form 10-K for the year ended December 31, 2007 (as may be updated in subsequent periodic and current reports filed with the SEC and incorporated herein by reference) for a complete description of our ratings.

Our financial strength ratings, which are intended to measure our ability to meet contract holder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings. This could lead to a decrease in fees as outflows of assets increase, and therefore, result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. The interest rates we pay on our borrowings are largely dependent on our credit ratings. A downgrade of our debt ratings could affect our ability to raise additional debt, including bank lines of credit, with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above.

Our businesses are heavily regulated and changes in regulation may reduce our profitability.

Our insurance subsidiaries are subject to extensive supervision and regulation in the states in which we do business. The supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of the supervision and regulation is the protection of our insurance contract holders, and not our investors. The extent of regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments. This system of supervision and regulation covers, among other things:

- Standards of minimum capital requirements and solvency, including risk-based capital measurements;
- Restrictions of certain transactions between our insurance subsidiaries and their affiliates;
- Restrictions on the nature, quality and concentration of investments;
- Restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations;
- Limitations on the amount of dividends that insurance subsidiaries can pay;
- The existence and licensing status of the company under circumstances where it is not writing new or renewal business;
- Certain required methods of accounting;
- Reserves for unearned premiums, losses and other purposes; and
- Assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors – the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments that do not get hedge accounting, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. Most of these factors are outside of our control. LNC’s credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital we must hold in order to maintain our current ratings. In addition, in extreme scenarios of equity market declines, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a greater than linear rate. This reduces the statutory surplus used in calculating our RBC ratios. To the extent that our statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise additional capital. On November 14, 2008, we filed an application with the Office of Thrift Supervision to become a savings and loan holding company and filed an application with the Treasury to participate in the CPP. However, there can be no assurance we will be approved as a savings and loan holding company or to participate in the CPP. If we were not to raise additional capital, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies. See “A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors." above.

We may be unable to maintain all required licenses and approvals and our business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations, which may change from time to time. Also, regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit such authorities to supervise the business and operations of an insurance company. As of 2008, no state insurance regulatory authority had imposed on us any substantial fines or revoked or suspended any of our licenses to conduct insurance business in any state or issued an order of supervision with respect to our insurance subsidiaries, which would have a material adverse effect on our results of operations or financial condition.

In addition, LFN and LFD, as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and FINRA. Our Investment Management segment, like other investment management companies, is subject to regulation and supervision by the SEC, FINRA, the Municipal Securities Rulemaking Board, the Pennsylvania Department of Banking and jurisdictions of the states, territories and foreign countries in which they are licensed to do business. Lincoln UK is subject to regulation by the FSA in the U.K. These laws and regulations generally grant supervisory agencies and self-regulatory organizations broad administrative powers, including the power to limit or restrict the subsidiaries from carrying on their businesses in the event that they fail to comply with such laws and regulations. Finally, our radio operations require a license, subject to periodic renewal, from the Federal Communications Commission to operate. While management considers the likelihood of a failure to renew remote, any station that fails to receive renewal would be forced to cease operations.

Many of the foregoing regulatory or governmental bodies have the authority to review our products and business practices and those of our agents and employees. In recent years, there has been increased scrutiny of our businesses by these bodies, which has included more extensive examinations, regular "sweep" inquiries and more detailed review of disclosure documents. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could have a material adverse effect on our business, results of operations or financial condition.

Our reserves for future policy benefits and claims related to our current and future business as well as businesses we may acquire in the future may prove to be inadequate.

Our reserves for future policy benefits and claims may prove to be inadequate. We establish and carry, as a liability, reserves based on estimates of how much we will need to pay for future benefits and claims. For our life insurance and annuity products, we calculate these reserves based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy, the lapse rate of the policies, the amount of benefits or claims to be paid and the investment returns on the assets we purchase with the premiums we receive. The assumptions and estimates we use in connection with establishing and carrying our reserves are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amounts that we will pay, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove to be inadequate in relation to our estimated future benefits and claims. As a result, we would incur a charge to our earnings in the quarter in which we increase our reserves.

A drop in the rankings of the mutual funds that we manage as well as a loss of key portfolio managers could result in lower advisory fees.

While mutual funds are not rated, per se, many industry periodicals and services, such as Lipper, provide rankings of mutual fund performance. These rankings often have an impact on the decisions of customers regarding which mutual funds to invest in. If the rankings of the mutual funds for which we provide advisory services decrease materially, the funds' assets may decrease as customers leave for funds with higher performance rankings. Similarly, a loss of our key portfolio managers who manage mutual fund investments could result in poorer fund performance, as well as customers leaving these mutual funds for new mutual funds managed by the portfolio managers. Any loss of fund assets would decrease the advisory fees that we earn from such mutual funds, which are generally tied to the amount of fund assets and performance. This would have an adverse effect on our results of operations.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards or guidance issued by recognized authoritative bodies, including the Financial Accounting Standards Board. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm our businesses.

Federal and state regulators continue to focus on issues relating to variable insurance products, including suitability and replacements and sales to seniors. Like others in the industry, we have received inquiries including requests for information regarding sales to seniors from FINRA. We are in the process of responding to these inquiries. We continue to cooperate fully with such authority. In addition, we are, and in the future may be, subject to legal actions in the ordinary course of our insurance and investment management operations, both domestically and internationally. Pending legal actions include proceedings relating to aspects of our businesses and operations that are specific to us and proceedings that are typical of the businesses in which we operate. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant harm to our reputation, which in turn could materially harm our business prospects. For more information on pending material legal proceedings, see "Item 3. Legal Proceedings" in LNC's Annual Report on Form 10-K for the year ended December 31, 2007 (as may be updated in subsequent periodic and current reports filed with the SEC and incorporated herein by reference) for a description of our reportable litigation.

Changes in U.S. federal income tax law could make some of our products less attractive to consumers and increase our tax costs.

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") and the Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA") contain provisions that have and will (in the absence of any further legislation) continue, near term, to significantly lower individual tax rates. These may have the effect of reducing the benefits of deferral on the build-up of value of annuities and life insurance products. EGTRRA also includes provisions that will eliminate, over time, the estate, gift and generation-skipping taxes and partially eliminate the step-up in basis rule applicable to property held in a decedent's estate. Many of these provisions expire in 2010, unless extended. The Bush Administration continues to propose that many of the foregoing rate reductions, as well as elimination of the estate tax, be made permanent, and continues to propose several tax-favored savings initiatives, that, if enacted by Congress, could also adversely affect the sale of our annuity, life and tax-qualified retirement products and increase the surrender of such products. Although we cannot predict the overall effect on the sales of our products of the tax law changes included in these Acts, some of these changes might hinder our sales and result in the increased surrender of insurance products.

In addition, changes to the Internal Revenue Code, administrative rulings or court decisions could increase our effective tax rate. In this regard, on August 16, 2007, the Internal Revenue Service ("IRS") issued a revenue ruling which purports, among other things, to modify the calculation of separate account deduction for dividends received by life insurance companies. Subsequently, the IRS issued another revenue ruling that suspended the August 16, 2007 ruling and announced a new regulation project on the issue. The current separate account deduction for dividends calculation lowered the effective tax rate by approximately 4% for the year ended December 31, 2007.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses or result in losses.

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate, such as the risk of pandemics causing a large number of deaths. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Because we are a holding company with no direct operations, the inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations.

We are a holding company and we have no direct operations. Our principal asset is the capital stock of our insurance and investment management subsidiaries.

Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders and corporate expenses depends upon the surplus and earnings of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Payments of dividends and advances or repayment of funds to us by our insurance subsidiaries are restricted by the applicable laws of

their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. Changes in these laws can constrain the ability of our subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses.

We face a risk of non-collectibility of reinsurance, which could materially affect our results of operations.

We follow the insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies written by our insurance subsidiaries (known as ceding). As of December 31, 2007, we have ceded approximately $351 billion of life insurance in-force to reinsurers for reinsurance protection. Although reinsurance does not discharge our subsidiaries from their primary obligation to pay contract holders for losses insured under the policies we issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. As of December 31, 2007, we had $8.2 billion of reinsurance receivables from reinsurers for paid and unpaid losses, for which they are obligated to reimburse us under our reinsurance contracts. Of this amount, $4.3 billion relates to the sale of our reinsurance business to Swiss Re in 2001 through an indemnity reinsurance agreement. Swiss Re has funded a trust to support this business. The balance in the trust changes as a result of ongoing reinsurance activity and was $1.8 billion as of December 31, 2007. In addition, should Swiss Re's financial strength ratings drop below either S&P AA- or A.M. Best A or their NAIC risk based capital ratio fall below 250%, assets equal to the reserves supporting business reinsured must be placed into a trust according to pre-established asset quality guidelines. Furthermore, approximately $2.1 billion of the Swiss Re treaties are funds-withheld structures where we have a right of offset on assets backing the reinsurance receivables.

Included in the business sold to Swiss Re through indemnity reinsurance in 2001 was disability income business. Swiss Re is disputing its obligation to pay approximately $47 million of reinsurance recoverables on this disability income business. We are currently arbitrating this dispute with Swiss Re. Although the outcome of the arbitration is uncertain, we currently believe that it is probable that we will ultimately collect the full amount of the reinsurance recoverable from Swiss Re and that Swiss Re will ultimately remain at risk on all of its obligations on the disability income business that it acquired from us in 2001. In addition, we are disputing with Swiss Re the contractual terms for interest crediting rates under two funds withheld reinsurance arrangements. One of these disputed arrangements is part of the current arbitration, and any action on the other disputed arrangement is pending the decision of the current arbitration results. Our estimate of the maximum loss exposure on these open matters is $45 million (pre-tax) as of September 30, 2008. Although the outcome of these open disputes is uncertain, we currently believe that the ultimate resolution will not result in a material financial impact to us.

During the third quarter of 2006, one of LNL's reinsurers, Scottish Re Group Ltd ("Scottish Re"), received rating downgrades from various rating agencies. As of December 31, 2007, of the $800 million of fixed annuity business that LNL reinsures with Scottish Re, approximately 71% is reinsured through the use of Modco treaties, in which LNL possesses the investments that support the reserves ceded to Scottish Re. For its annuity business ceded on a coinsurance basis, Scottish Re had previously established an irrevocable investment trust for the benefit of LNL that supports the reserves. In addition to fixed annuities, LNL has approximately $108 million of policy liabilities on the life insurance business it reinsures with Scottish Re. Scottish Re continues to perform under its contractual responsibilities to LNL.

The balance of the reinsurance is due from a diverse group of reinsurers. The collectibility of reinsurance is largely a function of the solvency of the individual reinsurers. We perform annual credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends and commitment to the reinsurance business. We also require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these

measures, a reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance contract, especially Swiss Re, could have a material adverse effect on our results of operations and financial condition.

Significant adverse mortality experience may result in the loss of, or higher prices for, reinsurance.

We reinsure a significant amount of the mortality risk on fully underwritten newly issued, individual life insurance contracts. We regularly review retention limits for continued appropriateness and they may be changed in the future. If we were to experience adverse mortality or morbidity experience, a significant portion of that would be reimbursed by our reinsurers. Prolonged or severe adverse mortality or morbidity experience could result in increased reinsurance costs, and ultimately, reinsurers not willing to offer coverage. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would either have to be willing to accept an increase in our net exposures or revise our pricing to reflect higher reinsurance premiums. If this were to occur, we may be exposed to reduced profitability and cash flow strain or we may not be able to price new business at competitive rates.

Catastrophes may adversely impact liabilities for contract holder claims and the availability of reinsurance.

Our insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic, an act of terrorism or other event that causes a large number of deaths or injuries. Significant influenza pandemics have occurred three times in the last century, but the likelihood, timing, or the severity of a future pandemic cannot be predicted. In our group insurance operations, a localized event that affects the workplace of one or more of our group insurance customers could cause a significant loss due to mortality or morbidity claims. These events could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our financial condition.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Pandemics, hurricanes, earthquakes and man-made catastrophes, including terrorism, may produce significant damage in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Also, catastrophic events could harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries. Accordingly, our ability to write new business could also be affected.

Consistent with industry practice and accounting standards, we establish liabilities for claims arising from a catastrophe only after assessing the probable losses arising from the event. We cannot be certain that the liabilities we have established will be adequate to cover actual claim liabilities, and a catastrophic event or multiple catastrophic events could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to attract and retain sales representatives and other employees, particularly financial advisors.

We compete to attract and retain financial advisors, wholesalers, portfolio managers and other employees, as well as independent distributors of our products. Intense competition exists for persons and independent distributors with demonstrated ability. We compete with other financial institutions primarily on the basis of our products, compensation, support services and financial position. Sales in our businesses and our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining financial advisors, wholesalers, portfolio managers and other employees, as well as independent distributors of our products.

Our sales representatives are not captive and may sell products of our competitors.

We sell our annuity and life insurance products through independent sales representatives. These representatives are not captive, which means they may also sell our competitors' products. If our competitors offer products that are more attractive than ours, or pay higher commission rates to the sales representatives than we do, these representatives may concentrate their efforts in selling our competitors' products instead of ours.

Intense competition could negatively affect our ability to maintain or increase our profitability.

Our businesses are intensely competitive. We compete based on a number of factors including name recognition, service, the quality of investment advice, investment performance, product features, price, perceived financial strength, claims-paying and credit ratings. Our competitors include insurers, broker-dealers, financial advisors, asset managers and other financial institutions. A number of our business units face competitors that have greater market share, offer a broader range of products or have higher financial strength or credit ratings than we do.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. Furthermore, larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. We expect consolidation to continue and perhaps accelerate in the future, thereby increasing competitive pressure on us.

Anti-takeover provisions could delay, deter or prevent our change in control even if the change in control would be beneficial to LNC shareholders.

We are an Indiana corporation subject to Indiana state law. Certain provisions of Indiana law could interfere with or restrict takeover bids or other change in control events affecting us. Also, provisions in our articles of incorporation, bylaws and other agreements to which we are a party could delay, deter or prevent our change in control, even if a change in control would be beneficial to shareholders. In addition, under Indiana law, directors may, in considering the best interests of a corporation, consider the effects of any action on stockholders, employees, suppliers and customers of the corporation and the communities in which offices and other facilities are located, and other factors the directors consider pertinent. One statutory provision prohibits, except under specified circumstances, LNC from engaging in any business combination with any shareholder who owns 10% or more of our Common Stock (which shareholder, under the statute, would be considered an "interested shareholder") for a period of five years following the time that such shareholder became an interested shareholder, unless such business combination is approved by the board of directors prior to such person becoming an interested shareholder. In addition, our articles of incorporation contain a provision requiring holders of at least three-fourths of our voting shares then outstanding and entitled to vote at an election of directors, voting together, to approve a transaction with an interested shareholder rather than the simple majority required under Indiana law.

In addition to the anti-takeover provisions of Indiana law, there are other factors that may delay, deter or prevent our change in control. As an insurance holding company, we are regulated as an insurance holding company and are subject to the insurance holding company acts of the states in which our insurance company subsidiaries are domiciled. The insurance holding company acts and regulations restrict the ability of any person to obtain control of an insurance company without prior regulatory approval. Under those statutes and regulations, without such approval (or an exemption), no person may acquire any voting security of a domestic insurance company, or an insurance holding company which controls an insurance company, or merge with such a holding company, if as a result of such transaction such person would "control" the insurance holding company or insurance company. "Control" is generally defined as the direct or indirect power to direct or cause the direction of the management and policies of a person and is presumed to exist if a person directly or indirectly owns or controls 10% or more of the voting securities of another person.

I. PLAN OVERVIEW

The purpose of the Plan is to recognize the services provided by certain highly successful agents.

Here is a summary of the Plan's key features (capitalized terms are defined below):

ü Each year, you may elect to defer receipt of up to 70 percent of your Pensionable Earnings into this Plan. Because the money you defer is contributed before the imposition of federal income taxes, your contributions to the Plan are referred to as your Pre-Tax Deferrals. You must make your election to contribute Pensionable Earnings earned during a calendar year before January 1st of that year.

ü The investment performance of your Pre-Tax Deferrals will depend upon the performance of the Investment Options that you select for the investment of your Pre-Tax Contributions. Your Company Basic Match contributions and any Company Discretionary Match contributions, and any Special Credit(s) (together, "Company Contributions") will be invested in a similar fashion. The Investment Options available under the Plan are described in the Investment Supplement in Section K, beginning on page 34 below.

ü Your Account balance is generally 100% vested at all times (unless you have a special arrangement with other terms), although you may forfeit Company Contributions (and any earnings attributable to Company Contributions) in cases where you are involuntarily terminated for Cause. Your Account balance is comprised of your Pre-Tax Deferrals, Company Contributions, and any earnings/(losses) due to investment performance.

ü You may not transfer any amounts credited to the LNC Stock Unit Fund into any other Investment Option. Amounts credited or contributed to the LNC Stock Unit Fund may only be transferred out or redeemed through a distribution of your account, as described in Section F.

ü You must elect for your Pre-Tax Deferrals to begin effective January 1st of a Plan year. The "Delayed Deferral" option has been discontinued due to changes in the tax laws.

ü You may be eligible to receive a Company Basic Match contribution on certain Pre-Tax Deferrals that you make to this Plan. The Company Basic Match contribution is $0.50 for every dollar you contribute, up to six-percent of the Pensionable Earnings that you elect to defer (e.g., up to 3% of Pensionable Earnings).

ü You may also be eligible to receive a Company Discretionary Match contribution with respect to certain Pre-Tax Deferrals if we decide to make one for a particular Plan year. The Company Discretionary Match contribution may range in amount from $ .01 to $1.00.

ü The investment performance of your Account will depend upon the performance of the Investment Options that you select from the Plan's menu of available Investment Options. Your Account will not actually be invested in those Investment Options. Instead, the performance of the Investment Options will be used solely as a measure to calculate the value of your Plan Account, and eventual benefit. This is sometimes referred to as "phantom" or "notional" investing.

The JOBS Act changed the rules for making elections to defer compensation, and for making distribution elections, generally making the rules more restrictive. With the exception of the "haircut rule" described on page 27, all of the rules for making deferral and distribution elections described in Sections B and F apply to all non-qualified amounts accrued before and after the effective date of the JOBS Act (January 1, 2005). Your entire Plan benefit is subject to the JOBS Act rules – there is no "grandfathering" of benefits deferred or contributed prior to January 1, 2005 – with the exception of the haircut rule, which was preserved with respect to amounts deferred or contributed on or before December 31, 2004.

The Plan is referred to as a "non-qualified" plan because it is not tax-qualified under section 401 of the Code. Unlike benefits in the "qualified" 401(k) Plan, benefits under this non-qualified Plan are not protected against our insolvency. If we become insolvent, you would have no rights greater than our other general unsecured creditors have to our assets. As a result, your Account balance would not be guaranteed if we became insolvent.

This Prospectus Supplement is intended to serve as a summary of Plan features and does not detail every possible combination of circumstances that could affect your participation in the Plan or your Account balance. The Plan Document is the legal document regarding your benefits and is the primary resource for all Plan questions. In the event of any discrepancies between this Prospectus Supplement and the legal document, the Plan Document will govern.

II. DEFINITIONS

Account. The term "Account" refers to the separate deferred compensation account that we have established in your name. Each Account is a bookkeeping device only, established for the sole purpose of crediting and tracking notional contributions (and any earnings/losses thereon) credited to the various Investment Options available under the Plan. We may establish various sub-accounts within your Account for the purpose of tracking the amounts credited to the various notional Investment Options you have chosen, for tracking Pre-Tax Deferrals and Company Contribution amounts, investment earnings/losses, and for other administrative purposes.

Benefits Administrator. The Benefits Administrator is the Plan's fiduciary and plan administrator.

The Benefits Administrator is the Vice President of Benefits and Human Resources Administrative Services. The Benefits Administrator is responsible for the day-to-day administration of this Plan and the authority to make administrative decisions and to interpret the Plan.

Cause. In the context of a termination for “Cause,” and as determined by the Benefits Administrator in its sole discretion, Cause shall mean: (1) your conviction for a felony, or other fraudulent or willful misconduct that is materially and demonstrably injurious to the business or reputation of LNC, or (2) the willful and continued failure to substantially perform your duties with LNC or a subsidiary (other than a failure resulting from your incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to your or your manager which specifically identifies the manner in which the manager believes that you have not substantially performed your duties.

Code. The Internal Revenue Code of 1986, as amended.

Company Basic Match. The Company Basic Match is a “guaranteed” match made on a bi-weekly payroll basis equal to $0.50 of every dollar of Pensionable Earnings contributed to this Plan, up to a maximum of 6% of Pensionable Earnings, to the extent such dollar cannot be contributed to the LNL Agents’ Savings & Profit-Sharing Plan (“LNL 401(k)”) due to IRS limits.

Company Contributions. Company Contributions include any Company Basic Match contribution, Company Discretionary Match contribution, or any Special Credit contributed by LNC to your Account.

Company Discretionary Match. The Discretionary Match contribution is made entirely at our discretion, and in some years may not be made at all. The amount of the Company Discretionary Match for a particular Plan year is based on pre-set performance criteria, the satisfaction of which must be approved by our Board of Directors before the Company Discretionary Match can be credited to you. Even if pre-set performance criteria are met, the Board reserves the discretion not to pay a Company Discretionary Match contribution for a particular year.

Disability. You will be considered disabled if you meet the definition of “disability” contained in the Social Security Act, or you have been receiving income replacement benefits for a period of at least three months under one of LNC’s accident or health plans by reason of a medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of at least 12 months.

Earnings. Earnings are defined as Pensionable Earnings plus commissions on contract renewals paid to you during the Plan Year from the sale of LNL and LNY life insurance and annuity products while you have a contract with us.

Investment Options. The term “Investment Options” refers to the menu of investment options available under the Plan for you to invest on a notional or “phantom” basis. A description of each Investment Option is included in this Prospectus Supplement below. We reserve the right to add or remove an Investment Option from the Plan at any time and from time to time.

Key Employees. Key Employees are defined under section 416(i) of the Code (the “top heavy” rules), and would include up to 50 of the highest paid officers of LNC. Under no circumstances may a payment under this Plan be made to a Key Employee within the first six months following the Key Employee's Separation from Service. Although it is unlikely that a Key Employee would participate in this Plan, or have a balance credited to an Account under this Plan, a determination of whether you are a Key Employee or not shall be made solely in the discretion of the Benefits Administrator, and in compliance with Code section 409A and any regulations promulgated thereunder.

LNL. LNL refers to The Lincoln National Life Insurance Company.

LNY. LNY refers to Lincoln National Life and Annuity Company of New York.

Nolan. Nolan refers to Nolan Financial Group, the Plan's recordkeeper and third-party administrator.

Open Window Periods. Open Window Periods generally commence on the later of (a) the second business day after our quarterly earnings release, or (b) the first business day after the quarterly investors conference and end on the fifteenth day of the last month of the quarter, unless we determine otherwise. If such fifteenth day is not a day on which trading occurs on the New York Stock Exchange, the window period shall end on the business day immediately preceding such day.

Pensionable Earnings. Pensionable Earnings may be deferred by you into the Plan, subject to certain limits, as described in Section B, below. Pensionable Earnings are defined as gross first year life insurance commissions plus gross first year annuity commissions paid to you during the Plan Year from the sale of LNL or LNY products while you have a contract with us. By "gross" we mean before taxes and any deferrals into the LNL 401(k) Plan that you may elect. Pensionable Earnings do not include commissions on contract renewals.

Pre-Tax Deferrals. Pre-tax Deferrals are the amount of Pensionable Earnings that you have elected to contribute to this Plan in accordance with the enrollment and/or election procedures established by the Benefits Administrator.

Separation from Service. The Benefits Administrator shall determine whether you have experienced a Separation from Service from LNC; such determination will be consistent with the definition of "separation from service" provided in Code section 409A and in any regulations promulgated thereunder.

Special Credit. We may credit your Account with a special employer credit at any time during a Plan year. Special Credits may have special forfeiture, vesting, or other restrictions or conditions associated with them, as determined by the Benefits Administrator.

Stock Units. "Stock Units" refers to "phantom" units of the Lincoln National Corporation common stock fund offered to employees in the Lincoln National Corporation Employees' Savings & Retirement Plan ("LNC Employees' 401(k) Plan"). You may direct Nolan to contribute all or a portion of your Pre-Tax Deferrals and Company Contributions into the Plan's Stock Unit Account. However, amounts invested in Stock Units may not be redeemed or transferred out of the Stock Unit Account until your Plan Account is distributed to you.

Units. "Units" means "phantom" or hypothetical shares of the Investment Options available under this Plan, excluding the Stock Units. Units will be notionally credited to your Account pursuant to your investment directions on file with Nolan.

III. PLAN DESCRIPTION

A. Eligibility & Participation

This Plan is being offered to select sales agents of Lincoln National Corporation and its affiliates. You will be eligible to participate in the Plan if your Earnings during the prior calendar year were at least $100,000, and you are classified as a full-time life insurance salesperson under the Federal Insurance Contributions Act. You must have also entered into an AG2K contract with LNL or a NYAG contract with LNY.

Effective July 1, 2005, experienced subsidy agents of LNL became eligible to participate in this Plan, provided they also met the threshold Earnings requirement of $100,000. District Agency Network Agents (DANs) and Agency Building General Agency Agents (ABGAs) are not eligible to participate in this Plan.

B. Deferral Provisions – Your Contributions to the Plan

You will not be eligible to make a deferral for a Plan year if you do not meet the eligibility requirements described in Section A above.

If you are eligible to participate, you may commence participation by making an irrevocable election to defer up to 70% of your Pensionable Earnings into this Plan, such election to become effective beginning on January 1st of the next calendar year. You may make a valid election by complying with the administrative procedures governing elections established from time to time by the Benefits Administrator. You must make your election within the time frame established by the Benefits Administrator, but in no event later than December 31st of the year prior to the year in which your Pensionable Earnings are earned.

You are not required to defer any part of your Pensionable Earnings into this Plan; however, if you do not elect to defer at least 6% of your Pensionable Earnings, you may not receive the full amount of Company Basic Match and any Company Discretionary Match contribution that you would otherwise be eligible to receive.

C. Company Contributions to the Plan

General. During 2008, any amount of Pensionable Earnings that you defer into the Plan ("Pre-Tax Contributions") after you have earned a threshold amount of $175,000 in Earnings (Pensionable Earnings plus commissions on contract renewals for life insurance and annuity products written by you for LNL and LNY) will be eligible for Company Basic and any Company Discretionary Matches. While your deferrals in the LNL 401(k) Plan may be matched until you have reached the IRS annual compensation limit ($230,000 in Earnings for 2008), your Pre-Tax Deferrals in this Plan will be matched only after your Earnings exceed $175,000. In other words, you will not receive any match under this Plan before your Earnings have exceeded the $175,000 threshold amount.

Beginning on January 1, 2009, the threshold amount of Earnings you must earn before your Pre-Tax Deferrals will receive any Company Basic or Company Discretionary Matches will increase to $245,000. On the other hand, your deferrals in the LNL 401(k) Plan will NOT be matched once you have reached the IRS annual compensation limit ($245,000 in Earnings for 2009).

Company Basic Match. You will be eligible to receive a Company Basic Match contribution on certain Pre-Tax Deferrals that you make to this Plan. The Company Basic Match is $0.50 for every dollar you contribute that is above the $175,000 threshold, up to six-percent of the Pensionable Earnings that you elect to defer (e.g. maximum annual value = 3% of Pensionable Earnings).

Example: Agent Jones elects to defer 7% of his Pensionable Earnings into the Plan during 2009. His Earnings exceeded the $245,000 threshold amount on February 4, 2008. His Company Basic Match will be determined as follows:

Cycle Date	Gross Earnings YTD (A)	Threshold (B)	Difference (A) – (B) (C)	1st year commissions portion of (C) (Pensionable Earnings)	Deferral %	Deferral Amount	Basic Company Match (3% of Pensionable Earnings)
2/04/2008	$ 247,500.46	$ 245,000	$ 2,500.46	$ 2,500.46	7%	$ 175.03	$ 87.51
2/11/2008				4,974.80	7%	348.24	149.24
2/19/2008				3,803.29	7%	266.23	114.10
2/25/2008				208.18	7%	14.57	6.25

Your Company Basic Match contributions will be invested in accordance with the investment directions you have provided to Nolan with respect to the deferral of your Pensionable Earnings (Pre-Tax Deferrals).

Company Discretionary Match. Any Company Discretionary Match contribution that we decide to make will be invested in accordance with the investment instructions you have provided to Nolan. The Company Discretionary Match will be credited to your Account as soon as administratively feasible after the Company's Board of Directors approves the Discretionary Match (typically in late March or early April). The Company Discretionary Match may range in amount from $ ..01 to $1.00.

Failure to elect to defer at least 6% of your Pensionable Earnings directly into this Plan could result in you not receiving the full amount of Company Basic Match and Company Discretionary Match contributions that you would otherwise have been entitled to receive.

Special Credits. In addition to the Company Basic Match and Company Discretionary Match contributions described above, we may credit your Account with a special employer credit for any calendar year. Special Credits may have a vesting schedule, or such other terms as determined by the Benefits Administrator. Special Credits should not be confused with the Company's Basic Match or Discretionary Match contributions.

D. Vesting

Subject to your involuntary termination for Cause, you are immediately vested in all the amounts credited to your Plan Account, unless you have a special arrangement with other terms: your Pre-Tax Deferrals, Company Basic Match contributions, any Company Discretionary Match contributions, and/or any Special Credits described above (unless the terms of the Special Credit specify otherwise) are all 100% vested and non-forfeitable.

E. Choosing a Beneficiary

When you first enroll you will be asked to designate a beneficiary (a person or an entity such as a trust who will be entitled to receive the value of your account if you die before distribution). You may name anyone you wish as your beneficiary.

You may, if you wish, name more than one person as beneficiary. If you name more than one person, however, you should specify the percentage you wish paid to those persons. Otherwise, the beneficiaries will share the account value equally.

If you do not have a beneficiary designation on file, or if your beneficiary dies before you and you have not named a contingent beneficiary, the value of your Account will be payable to your spouse, if living, and otherwise to your estate.

At any time you may change your beneficiary by filing a new designation of beneficiary form. A Beneficiary Designation form can be obtained by contacting the Nolan Financial Group at: (888) 907-8633. The change will be effective on the date that you submit the form. You must mail or fax the form to Nolan—this form cannot be submitted electronically.

F. Distributions and Taxes

Distributable Events. Beginning in October 2007, distributions from this Plan are permitted only upon the occurrence of the following events:

- The distribution date designated at the time of your deferral by electing a "Flexible Distribution Year Account" (or during the special JOBS Act election period offered by the Benefits Administrator in which you were permitted to elect new "Flexible Distribution Year Accounts");
- For Company Contributions made as matching contributions to deferrals attributable to all products sold through the Lincoln Life & Annuity Company of New York, thirteen (13) months after the earliest date on which you have attained age 55 or older, and your age and years of service with LNC combined is equal to the number "70" (for example, age 55 with fifteen (15) years of service with LNC, or age 59 with eleven (11) years of service);
- The Plan's default distribution date (if you failed to make a valid Flexible Distribution Year Account election) - February 5th of the calendar year in which your 65th birthday occurs;
- Death; or
- A qualifying financial hardship

You may not take a loan against the balance credited to your Account.

You may not accelerate the receipt of any assets which are deferred or contributed to your Plan accounts on or after January 1, 2005 (or any earnings allocable to such amounts). This includes an acceleration of a distribution by forfeiting a portion of your Account as a penalty (known as a "haircut"). For amounts deferred or contributed to your Plan accounts prior to January 1, 2005 ("grandfathered amounts") you will still be permitted to accelerate the distribution of your accounts by taking a "haircut".

You may, however, elect to delay or "re-defer" the distribution of your Account beyond a previously selected distribution date, subject to certain restrictions as described in more detail below.

Termination Accounts—Default Distribution Date. Prior to 2008, you were allowed to defer Pre-Tax Deferrals (and any related Company Contributions) into a "Termination Account," to be paid out upon the termination of your AG2K contract with LNL or LNY. However, in order to comply with changes to the tax rules made by the JOBS Act, you were required to elect a more specific, objectively determinable distribution date with respect to assets which were credited to your Termination Account during a special election period. We solicited elections from you during the special JOBS Act election period from August 14, 2007 to October 5, 2007, requesting that you designate a "Flexible Distribution Year" for your Termination Account assets. A Flexible Distribution Year Account can be any calendar year beginning in 2009— it was not necessary for the year to end in a “0” or “5”. If you did not make an election by the deadline of October 5, 2007, any assets credited to your Termination Year Account will be paid to you on the Plan’s Default Distribution Date. The Default Distribution Date for converted Termination Accounts is February 5th of the calendar year in which your 65th birthday occurs. However, if your 65th birthday occurs before January 1, 2009, your Termination Account will be payable to you on February 5, 2009. Your Account will be valued as of the close of business on February 5th or on the last business day preceding February 5th of the applicable calendar year. Current Distribution Year Accounts were not affected by this change. Further, agents with Termination Accounts who terminated AG2K contracts between August 14, 2007 and October 5, 2007 and who did not make a special JOBS Act election during this period had their Termination Account assets paid out under the prior rules. They were not subject to the Default Distribution Date rules.

Termination Accounts -- Default Distribution Form. If you did not elect an alternative form of distribution for your Termination Account during the special JOBS Act election period from August 14, 2007 to October 5, 2007, your converted Termination Account will be paid to you in a lump sum distribution. Amounts credited to your non-Stock Unit investment sub-accounts will be paid to you in cash lump sum distribution on your Distribution Date (either the year indicated by your elected Flexible Distribution Year Account, or your Default Distribution Date, as described above). You will receive amounts credited to your Stock Unit investment sub-account in shares of LNC Stock in a lump sum (with fractional shares in cash) on your Distribution Date as well.

Flexible Distribution Year Accounts. Beginning with the 2007 annual enrollment period (for the 2008 Plan year), you could elect to defer your Pre-Tax Deferrals into a Flexible Distribution Year Account that you designate at the time you elect to defer amounts into the Plan. Flexible Distribution Year Accounts may be any calendar year--it is not necessary for the year to end in a “0” or “5”. You must make this irrevocable election at the time of your deferral on your Distribution Election Form. In general, you must designate Flexible Distribution Year Accounts that are later than the calendar year immediately following the calendar year in which you make your Pre-Tax Deferral election.

Any Company Contributions made during a year will automatically be contributed to the Flexible Distribution Year Account or Distribution Year Account (as described below) that you have designated for that year’s Pre-Tax Deferrals. Special Credits will be contributed to the Flexible Distribution Year Account or Distribution Year Account designated by the Benefits Administrator in his sole discretion.

You may have up to three (3) different Accounts at one time: any combination of three Distribution Year Accounts (elected prior to 2007), and Flexible Distribution Year Accounts.

Distribution Year Accounts. Beginning in 2008, Distribution Year Accounts will be replaced by Flexible Distribution Year Accounts. Prior to 2007, you may have elected to defer your Pre-Tax Deferrals into any one of the following pre-established Distribution Year Accounts: the year 2010 Account, 2015 Account, or 2020 Account – or any fifth year afterwards. You were not permitted to designate a Distribution Year Account that was earlier than the calendar year immediately following the calendar year in which you made your Pre-Tax Deferral election. You were required to make this irrevocable election at the time of your deferral on your Distribution Election Form.

Distribution Year Accounts elected prior to 2007 will not be affected by these changes, but going forward, you will elect to make Pre-Tax Deferrals into Flexible Distribution Year Accounts.

Any Company Contributions made during a year will automatically be contributed to the Flexible Distribution Year Account(s) or Distribution Year Account(s) that you have designated for that year’s Pre-Tax

Deferrals; or, in the case of a Special Credit, to a Flexible Distribution Year Account or Distribution Year Account designated by the Benefits Administrator in his sole discretion.

You may have up to three (3) different Accounts at one time: any combination of three Distribution Year Accounts (elected prior to 2007), and Flexible Distribution Year Accounts.

Distribution Year Accounts – Default Distribution Form. For those participating in the Plan prior to 2007, you may or may not have made an election regarding the form in which you wanted your Distribution Year Account distributed to you (e.g., lump sum, or annual installments). In fact, you may have made separate elections for your pre-2005 and 2005 contributions. Regardless of any of your prior elections, you were required to make an election by October 5, 2007 regarding the form of distribution for any existing Distribution Year Accounts. You were required to make a new election as to the form of distribution for your Distribution Year Account, even if you had already made an election. If you did not make a distribution form election by the deadline of October 5, 2007—any assets credited to your existing Distribution Year Account(s) will be paid to you in the Default Distribution Form—a lump sum.

Flexible Distribution Year & Distribution Year Accounts – Distribution Dates. Any Pre-Tax Deferrals, plus any Company Contributions made with respect to such deferrals, plus investment earnings/losses allocable to such amounts, will be distributed to you as of February 5th of the specified distribution year. For example, if you have a 2010 Distribution Year Account, your Distribution Date will be February 5, 2010. Or, if you have a 2017 Flexible Distribution Year Account, your account will be distributed to you as of February 5, 2017. Your Account will be valued as of the close of business on February 5th or on the last business day prior to February 5th. Payment will made to you as soon as administratively practicable, but in no event later than 90 days after the valuation date. If you have elected to defer Pre-Tax Contributions and related Company Contributions to a pre-established Flexible Distribution Year Account or Distribution Year Account with a date that is beyond the date of your Separation from Service or the date on which your AG2K contract with LNL terminates, distribution of the assets credited to such Account will start in the year specified by your Account designation—not earlier or later.

Special Rule for Company Contributions Made with respect to the Sale of NY Products. For Company Contributions made as matching contributions to deferrals attributable to all products sold through the Lincoln Life & Annuity Company of New York, the default distribution date is thirteen (13) months after the earliest date on which you have attained age 55 or older, and your age and years of service with LNC combined is equal to the number "70" (for example, age 55 with fifteen (15) years of service with LNC, or age 59 with 11 years of service). These NY product related Company Contributions will be paid to you in lump sum.

Alternative Distribution Forms. If you do not wish to receive your Flexible Distribution Year Account or Distribution Year Account in a lump-sum payment (the default distribution form), you must elect one of the following alternative payment options in either an "Initial Election" or a "Secondary Election," as described below. The alternative distribution forms available to you are:

- Five-year installment payments
- Ten-year installment payments
- Fifteen-year installment payments
- Twenty-year installment payments

If you choose five-year installment payments, you will receive 1/5 of your total account balance the first year, 1/4 of the remaining account balance the second year, 1/3 of the remaining account balance the third year, 1/2 of the remaining account balance the fourth year and all of the remaining balance the final year.

Initial Elections. Beginning with the 2007 annual enrollment period (pertaining to the 2008 Plan year), you will be required to elect a Flexible Distribution Year Account, and the distribution form for such Account, by completing a deferral election form at the time of your deferral This will constitute your "Initial Election" under the Plan. If you made a Flexible Year Distribution Account election for an existing Termination Account, or an election regarding the distribution form for amounts credited to an existing Distribution Year Account during the special JOBS Act election period from August 14, 2007 to October 5, 2007, this also constituted an Initial Election under the Plan. Finally, if you had an existing Termination Account and you did not make a Flexible Distribution Year Account election during the special JOBS Act election period, or you did not make a distribution form election for your existing Distribution Year Account, your Account became subject to Plan's Default Distribution Date and Default Distribution Form rules. In this case, the default will be deemed your Initial Election.

If you are a new participant, or you are electing a new Flexible Distribution Year Account, you will be required to make a valid "Initial Election" when you complete your deferral election form. You can do this by indicating the desired Flexible Distribution Year Account as well as the distribution form for such Account.

Secondary Elections. Under any of the above scenarios, you will have just one additional opportunity, or "Secondary Election," to delay your payment date by a minimum of five (5) years. Your Secondary Election is not effective for one year—it becomes effective on the 366th day following your election. If you choose to make a Secondary Election, you will need to make it at least 366 days prior to the date on which your account would have been paid under your Initial Election. At this time you may also elect to change the distribution form—from a lump sum to installments or vice-versa—with a mandatory minimum five (5) year delay.

Example One: Sue had a 2013 Flexible Distribution Year Account and her contract with LFG will end in 2013. Sue's Initial Election was to have her Account distributed as a lump sum payment. Through a Secondary Election, Sue can choose to delay her payment by five (5) years to 2018 and change her form of payment distribution from lump sum to 5 annual installments. Sue will need to submit her Secondary Election at least 366 days prior to the original date in which the account is scheduled to be valued for payment – i.e., election must be made by February 5, 2012. If Sue does nothing, her Plan Account will be valued on February 5, 2013 and paid to her in a single lump sum within six (6) weeks of that date.

Example Two: Glenn had a 2011 Flexible Distribution Year Account and his contract with LFG will end in 2008. Glenn made an Initial Election to have his account distributed as installments over twenty years. Although Glenn's contract ended in 2008, his account will still be paid starting in 2011. The first installment will be valued on February 5, 2011 and paid to him within six (6) weeks of that date. The second and all remaining installments will also be valued on February 5th each subsequent year and paid to him within six (6) weeks of those dates.

Example Three: Ron, who intends to end his contract in 2011, has a 2009 Flexible Distribution Year Account and made an Initial Election to have his account paid as a lump sum. If Ron does nothing, his account will be valued on February 5, 2009 and paid as a lump sum to him within six (6) weeks of that date. If Ron decides he would prefer his payment distribution to be in 5 annual installments instead of a lump sum, he must submit a Secondary Election form at least 366 days prior to the original date in which the account is scheduled to be valued for payment – i.e., election must be made by February 5, 2008. His Secondary Election will allow him to change his payment distribution from lump sum to five annual installments; however, because this is his Secondary Election, his distribution will also be delayed by a minimum of five (5) years to 2014. If Ron makes a valid Secondary Election to change his payment form to five annual installments starting in 2014; his Secondary Election is irrevocable and he will not have any additional opportunities to change his elections. Ron's first installment from his 2014 Flexible Distribution Year Account will be valued on February 5, 2014 and paid to him within six (6) weeks of his

Valuation date. The second and all remaining installments will also be valued on February 5th each subsequent year and paid to him within six (6) weeks of those dates.

Example Four: Emily plans to retire from LFG in 2015 at age 65 and has a 2015 Distribution Year Account with an Initial Election designating a payment form of ten annual installments. Due to an unforeseen illness, Emily will be leaving LFG in 2008 and is wondering if she can have quicker access to her account. Through a Secondary Election she will have the option to change her distribution from installments to a lump sum payment; however, she must defer the payment of her Distribution Year Account by a minimum of five (5) years to 2020. She would also need to make such an election at least 366 days prior to the original date in which the account is scheduled to be valued for payment – i.e., election must be made by February 4, 2014. If Emily does nothing, her Plan Account will be paid to her starting in 2015 as ten annual installments based on her Initial Election. Her first payment will be valued on February 5, 2015, and paid within six (6) weeks of that date. The second and all remaining installments will also be valued on February 5th each subsequent year and paid to her within six (6) weeks of that date. (Note that Emily may not use her Secondary Election to accelerate payment of her account from 2015 to 2008).

Upon Death. In the event of your death prior to the commencement of the distribution of your Account(s), your beneficiary will receive a lump sum payment that will be paid as soon as possible after your death (but in no event later than 90 days after the date of your death), regardless of any distribution form election that you may have made. Your Account(s) will be valued as of the date of your death for distribution to your Beneficiary(ies).

In the event of your death after the distribution of your Account(s) (per your election of an "Alternative Distribution Form"—as described above) has commenced, but prior to the complete distribution of your Account balance(s) to you, your remaining Account balance(s) will continue to be paid to your Beneficiary(ies) in accordance with your elected distribution option.

Delays in Distributions. As described in the Section above describing "Initial and Secondary Elections," you are allowed to make a one-time, irrevocable election to delay the date on which your Account would otherwise be distributed to you by making a "Secondary Election." You must make a Secondary Election at least 366 days prior to the date on which your Account would have been paid under the Initial Election, and the distribution must be delayed for at least 5 additional years.

Upon a Qualifying Financial Hardship. In the event of a qualifying financial hardship, the Benefits Administrator will direct that you be paid from your Account balance an amount in cash sufficient to meet the financial hardship. Assets from your non-Stock Unit sub-account will be used first. In the event that the amount needed to satisfy the hardship is greater than the value of your Stock Unit sub-account, the balance of your hardship distribution will be paid to you in shares of LNC Stock. Hardship distributions will be permitted only if you are faced with an unforeseeable financial emergency. An unforeseeable financial emergency is defined as "severe hardship to the participant resulting from a sudden and unexpected illness or accident of the participant or a dependent of the participant, loss of the participant's property due to casualty or other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant." The Benefits Administrator determines if the hardship qualifies under the appropriate standards. Please note that it is very rare that a hardship meets these stringent criteria.

Taxes. Distributions under this Plan are taxable as ordinary income in the year that you receive them. Income taxes will be withheld, if required, in accordance with federal, state and local income tax laws. Because of the nature of this Plan (non-qualified), you cannot "roll over" distributions from this Plan into a qualified plan such as your IRA or another employer's savings plan.

If your distribution includes LNC stock and you do not have a cash distribution large enough for the tax withholding, shares of stock scheduled for distribution will be sold to satisfy the tax withholding requirement, or your non-Stock Unit sub-account(s) will be debited to pay the necessary taxes, at the discretion of the Benefits Administrator.

Cash Out of Small Account Balances. If at any time the sum of your Accounts under this Plan, aggregated with the sum of your accounts under any other account plans or programs sponsored by us that are subject to Internal Revenue Code Section 409A, is less than $15,500* you will be paid an immediate cash lump sum in all circumstances. For example, if your Account balance is $30,000 and you elect five annual installments and the sum of your Account balance after the third installment is $12,000, you will receive a total distribution in that year and no further installments.

*The applicable dollar limit under section 402(g)(1)(B) in effect for the calendar year.

G. Other Important Facts about the Plan

Lincoln National Corporation Securities. This Prospectus Supplement covers $10 million of Deferred Compensation Obligations registered under this Plan. The Deferred Compensation Obligations represent our obligations to pay deferred compensation amounts in the future to Plan participants (similar to the repayment of a debt). Compensation deferred for a participant under the Plan is notionally credited to various Investment Options (phantom investments) selected by the Benefits Administrator that are used to value the Plan Account we establish for the participant. Each Account is credited with earnings, gains, and losses based on these notional investment measures.

The Deferred Compensation Obligations are our unsecured and unsubordinated general obligations and rank pari passu with our other unsecured and unsubordinated indebtedness. The Deferred Compensation Obligations are not convertible into any other security except that Account balances treated as invested in our common stock are distributed in shares of our common stock.

For information regarding distributions from the Plan, see “F. Distribution and Taxes” above.

Unfunded Status. This Plan is a non-qualified and unfunded benefit plan. Unlike a qualified retirement plan, which is subject to strict funding requirements under ERISA and the Code, your Account balance is not held in trust and is therefore not protected against the claims of our general creditors in the case of our insolvency. In the event of insolvency, the rights of any participant in the Plan (as well as the rights of his or her beneficiary or estate) to claim amounts under the Plan are solely those of an unsecured general creditor of LNC. No trustee has been appointed to take action with respect to the Deferred Compensation Obligations. You, and each other participant in the Plan will be responsible for enforcing your own rights with respect to the Deferred Compensation Obligations. We may establish a “rabbi,” or grantor trust to serve as a source of funds from which we can satisfy the obligations. If a grantor trust is established, it will not change the unfunded status of the Plan--you will continue to have no rights to any assets held by the grantor trust, except as our general creditors. Assets of any grantor or rabbi trust will at all times be subject to the claims of our general creditors.

Amendment & Termination of the Plan. We have the ability to amend the Plan prospectively at any time. We also have the ability to terminate the Plan provided that you and other participants and beneficiaries receive advance notice.

No Assignment of Interests. Your interests in this Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Any attempt by any person to transfer or assign benefits under the Plan, other than a claim for benefits by a participant or his or her Beneficiary(ies), will be null and void. Prior to the time that your Account is distributed to you, you have no rights by way of anticipation or otherwise to assign or dispose of any interest(s) under the Plan.

Plan Administrator & Plan Fiduciary. The plan administrator and fiduciary for this Plan is the Benefits Administrator. The Benefits Administrator shall have complete authority to take any such actions that he believes are necessary or desirable for the proper administration and operation of this Plan. The Benefits Administrator has authority for the day-to-day operation of the Plan, and the authority to make administrative determinations and interpret the Plan (with the advice of counsel as necessary, desirable, or appropriate).

If you disagree with any decision, action or interpretation of this Plan, you may submit in writing a full description of the disagreement to the Benefits Administrator. Subject only to review by the Board of Directors of LNC, the decision of the Benefits Administrator in reference to any disagreement shall be final, binding, and conclusive on all parties.

As of the date of this Prospectus Supplement, any correspondence to the Benefits Administrator can be sent to:

William David, VP of Benefits and HR Administrative Services
Lincoln National Corporation
150 N. Radnor Chester Road
Radnor, PA 19087-5238

H. Participant Communications

You will receive quarterly statements that will show any activity in your Account during the past calendar quarter (your “Participant Activity Statement”), including any contributions, and dividends credited to your Account. You will also receive a “Participant Benefit Statement” showing the opening and closing balances for your Account for each calendar quarter, broken down or itemized for each Investment Option or fund, and any deferrals or contributions, transfers, distributions or other adjustments that may have taken place during the period. This Statement will also include your investment results for that quarter, also broken down or itemized for each Investment Option or fund.

I. Investment Elections

Investment Directions. You will have the opportunity to make an investment election directing the investment of your various Flexible Distribution Year Accounts into which you have allocated your deferrals and Company Contributions. If you are deferring Pensionable Earnings into an existing account, your old investment directions will remain in place until you change them.

Any Company Matching Contributions credited to your Account(s) will be invested in the same manner that you selected for your Pensionable Earnings. You must make a separate investment election for any other special accounts you may have. You are limited to one investment election per account. So, for example, if you choose to direct all your Pensionable Earnings into the same distribution account (e.g., or Termination Account or 2015 Account), only one investment election will drive the allocation of those contributions.

Nolan will deem any investment direction(s) given to them to be continuing directions until you affirmatively change them. Any changes to your current investment directions, or transfers permitted among Investment Options, will be effective on the date the transaction is approved and processed by Nolan.

Default Investment Direction. A failure to make an investment election for a distribution account will result in amounts credited to that account being invested in the Plan's default investment option. The default investment option for the Plan is the same as the Qualified Default Investment Alternative ("QDIA") designated for the LNC Employees' 401(k) Plan. Currently, the QDIA is the Delaware Moderate Allocation I Fund.

Subject to Change. LNC reserves the right to eliminate or change the Investment Options offered under the Plan at any time. LNC is under no obligation to offer any particular investment option or to effectuate a selection by you. Any investment election by you shall be treated as a mere expression of investment preference on your part.

J. Trading Restrictions & Other Limitations

You may not transfer amounts credited to the LNC Stock Unit Fund into any other Investment Option. However, you may transfer amounts credited to your Non-LNC Stock Unit Investment Options into the LNC Stock Unit Fund, or make new elections to increase your contributions into the LNC Stock Unit Account, subject to certain trading restrictions described below, and in the "Insider Trading and Confidentiality Policy" available to you on LNC's intranet website at the following address:

http://inside.lfg.com/lfg/docs/pdf/coc/rel/itp.pdf.

Transfers from the Lincoln Stable Value account are not restricted in the same way as they are in the qualified savings plan (transfers out of the Lincoln Stable Value Account are subject to a "90-Day Equity Wash" requirement, as explained in the Investment Supplement for that plan). However, if you were a participant in the CIGNA deferred compensation plan and made deferrals into the guaranteed fund investment option under that plan prior to 1996, those assets were credited to a special CIGNA guaranteed fund account under the Plan (the "CIGNA Account"). You will not be permitted to transfer amounts credited to a CIGNA Account into any other Plan Investment Option.

In order to prevent market timing, excessive trading, and similar abuses, the managers of the various Investment Options may impose additional trading restrictions or redemption fees triggered by certain kinds of trades or trading activities. The same or similar trading restrictions may be applied to your notional investments in this Plan, if, in the sole discretion of the Benefits Administrator (the Plan administrator and fiduciary), your pattern of investment is considered abusive. For mutual fund investment options, please see the relevant prospectus for information on trading restrictions or applicable redemption fees. For collective investment trust options, please consult the relevant disclosure statements for such information. These documents are available on Lincoln Alliance's web site at: www.LincolnAlliance.com, or by requesting them through the Call Center: 800-234-3500. Neither the Lincoln Stable Value Account investment option nor the LNC Stock Unit Fund is subject to any market timing or excessive trading restrictions or redemption fees.

K. The Investment Supplement – Summary Information on the Investment Options

In General. For recordkeeping purposes, you will have an Account established in your name. In addition, separate investment sub-account(s) may be established within your Account, one for each Investment Option that you select, including one for "phantom" units representing the LNC Stock Fund (your "Stock Unit" sub-account). Please note, that your "investment" in the various Investment Options offered under the Plan is notional only. The investments are "phantom" investments, and your account(s) earnings/losses are based on “phantom” performance. That is, your money will not actually be invested in the Investment Options you select. However, the Plan record keeper will track investment performance as if contributions were actually invested in the Investment Options that you selected. All contributions (yours and LNC’s), and any notional or “phantom” earnings on those contributions, will remain assets of LNC until the time distributed to you. LNC reserves the right to change the Investment Options offered in the future.

Types of Investment Options. The Plan’s Investment Options include the LNC Stock Unit fund, a variety of mutual funds and bank collective investment trusts, and a stable value option—the Lincoln Stable Value Account.

Collective Investment Trusts. A collective investment trust or “CIT” is an investment fund that is similar to a mutual fund in that it invests in stocks, bonds, and other investments. However, CITs are exempt from registration with the Securities and Exchange Commission (“SEC”) as an investment company under the Investment Company Act of 1940 (the “1940 Act”) and are therefore not subject to the same fees, expenses and regulatory requirements—or regulatory protections—as mutual funds. Collective investment trusts may only hold the assets of qualified retirement and government plans, including 401(k) plans, Taft-Hartley plans, profit sharing and cash balance plans, and governmental 457 plans. An investor in a CIT holds a “unit” of the trust. This investment is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency, or entitled to the protections of the 1940 Act.

In addition to the quoted net expense ratios, other expenses, including legal, auditing, custody service and tax form preparation, investment and reinvestment expenses may apply with respect to your CIT investment. The CITs offered by the Plan are maintained by AST Capital Trust Company of Delaware, a Delaware state chartered trust company. AST is an independent trust company and is not an affiliate of Lincoln Financial Group. AST is a wholly owned subsidiary of Wilmington Trust Company.

Participation or investment in a CIT is governed by the terms of the trust and participation materials. An investor should carefully consider the investment objectives, risks, and charges and expenses of the CIT before investing. The disclosure statement for each CIT contains this and other important information and should be read carefully before investing or sending money. For disclosure statements, please contact LRSC’s Call Center at: 800-234-3500, or visit its web site at: www.LincolnAlliance.com.

Mutual Funds. Mutual funds invest in stocks and bonds and other investments and are registered with the SEC as an investment company under the 1940 Act. Investors in a mutual fund are “shareholders” in a fund with all of the rights and protections provided by the 1940 Act. With respect to a mutual fund investment option, an investor should carefully consider the investment objectives, risks, charges and expenses of the investment company before investing. The prospectus for the mutual fund contains this and other important information and should be read carefully before investing or sending money. For prospectuses, please contact LRSC’s Call Center at: 800-234-3500, or visit its web site at: www.LincolnAlliance.com.

Insurance Products. The Lincoln Stable Value Fund is a fixed annuity issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, 46802, on Form 28866-SV and state variations thereof. Guarantees are based upon the claims-paying ability of the issuer. Contributions received in any quarter will earn interest at the portfolio rate in effect for the quarter, with a minimum guaranteed interest rate.

Employer Securities. The primary purpose of the LNC Stock Unit Fund is to allow you to invest in the securities of your employer, LNC. The LNC Stock Unit Fund is a unitized fund. A unit of the fund represents a pro-rata portion of all of the securities (shares of LNC common stock) held by the fund, as well as a pro-rata portion of any cash or money market investment held by the Fund for liquidity purposes. The cash or money market units are used to execute daily transactions, thus avoiding the need for the manager to sell shares of stock on the open market and wait to receive the cash proceeds from the sale to satisfy a participants' transfer or redemption transaction. The value of a unit of the LNC Stock Unit Fund is calculated each day by dividing the current value of all LNC common stock in the LNC Stock Fund invested in by participants of the LNC Employees' 401(k) Plan, plus any cash or money market investment, by the total number of units allocated to participant investors. Currently, this Fund holds units of a money market account rather than actual cash to satisfy liquidity needs.

For a description of the risks associated with investment in LNC, please refer to the Risk Factors on page 3 and Lincoln National Corporation's filings with the SEC incorporated by reference herein (see "Documents Incorporated by Reference" on page 59).

Self-Directed Brokerage Account. Although it is offered in certain of our qualified savings plans, we do not offer a self-directed brokerage account as an investment option under the Plan.

Deferred Compensation Obligations. This Investment Supplement covers Deferred Compensation Obligations registered under this Plan. The Deferred Compensation Obligations represent our obligations to pay deferred compensation amounts in the future to Plan participants (similar to the repayment of a debt). As described above, contributions made with respect to a participant under the Plan are notionally credited to various Investment Options (phantom investments) selected by the Benefits Administrator that are used to value the Plan account we establish for the participant. Each account is credited with earnings, gains, and losses based on these notional investment measures.

The Deferred Compensation Obligations are our unsecured and unsubordinated general obligations and rank pari passu with our other unsecured and unsubordinated indebtedness. The Deferred Compensation Obligations are not convertible into any other security except that account balances treated as invested in LNC common stock through the LNC Stock Unit Fund are distributed in shares of LNC common stock.

Valuation. The value of a hypothetical unit or share of an Investment Option under this Plan "tracks" or is based on a unit or share of the Investment Option with the same name in the LNC Employees' 401(k) Plan. For example, the value of a unit of the LNC Stock Unit Fund is based on, or 'tracks", a unit of the LNC Common Stock Fund in the LNC Employees' 401(k) Plan.

Investment Options under the Plan will be valued each day that stock exchanges in the United States are open for business.

The valuation date for transfers into the LNC Stock Unit Fund is the date your request is received and confirmed by Nolan, as long as your call is received prior to 3 p.m. (Central Time) on a business day (otherwise the next business day). The valuation date for all other distributions is provided for under the Plan. The valuation date for new contributions into the LNC Stock Unit Fund is the business day on which, or next following the date on which your contribution to the Plan is credited by Nolan to your Account.

Investment Decisions; Diversification. Depending on your investment needs and objectives, you may decide to concentrate or diversify the assets currently credited to your various Flexible Distribution Year accounts, and any future contributions that you and/or we may make to your accounts—your pre-tax deferrals of Pensionable Earnings and your Company Contributions—among the various Investment Options described below. Subject to the rules restricting the trading activities of executives and other officers of LNC, and any trading restrictions or other limitations imposed by the Investment Options involved (described in more detail

above), you may make elections directing the Nolan Financial Group ("Nolan")—the Plan's record keeper and third party administrator—as to how to invest your future Contributions, including elections to increase or decrease the rate of future contributions into the LNC Stock Unit Fund.

In deciding how to invest your Plan Account, you should carefully consider the Investment Options that are right for you. You should read the following information carefully when making Plan investment decisions. The information below will help you to understand the investment choices and the differences among them. The information provided to you in the following description of Investment Options should not be construed as an investment recommendation for any particular Investment Option.

As of the date of this Prospectus Supplement, the Investment Options listed below are available for you to invest in. These are the same investments currently offered under the LNC Employees' 401(k) Plan. For more detailed information about each of the Investment Options (except for the LNC Stock Unit Fund) please log onto your Account at the following website address: www.Nolanlink.com. For LNC Stock Unit Fund information, please log onto your Account under the LNC Employees' 401(k) Plan account at the following website address: www.LincolnAlliance.com, or by requesting them through the Customer Contact Center: 800-234-3500. If you do not have a LNL 401(k) Plan or LNC Employees' 401(k) Plan account, please contact the Plan's Administrator for this information.

Comparative Performance of Investment Options. The table below has been prepared to assist you in making your investment directions under the Plan. However, the value of this information is limited, and we recommend that you consult a qualified investment adviser before making any investment decisions. Expressed in percentage terms, the calculation of average annual total return is determined by taking the change in price, reinvesting, if applicable, all income and capital-gains distributions during that month, and dividing by the starting price. Reinvestments are made using the actual reinvestment price, and daily payoffs are reinvested monthly. The Investment management fees, contract fees, and other expenses (the "Net Expense Ratio" shown on the chart below) has been deducted from the performance data below. In cases where additional fees and expenses have not been included in the performance data, please note that the performance figures would be reduced if such expenses were deducted from performance data. Please see the description of "Expense" for each Investment Option for more detail about these additional fees and expenses.

Fund Performance - Average Annual Total Return*

		Performance as of 10/31/2008						Performance as of Quarter Ending 09/30/2008			
	Ticker	3 Months	1 Year	3 Years	5 Years	10 Years	Inception Date	1 Year	5 Years	10 Yrs or Since Inception	± Net Expense Ratio %
Stock-Based Investments											
American Funds Grth Fund of Amer R5	RGAFX	-27.39%	-37.72%	-4.65%	1.94%	5.84%	May-02	-22.69%	7.24%	8.68%	0.35
Columbia Acorn Z	ACRNX	-26.88%	-38.81%	-5.34%	3.15%	9.32%	Jun-07	-20.58%	9.73%	12.42%	0.74
Delaware Intl Equity Trust	---	---	---	---	---	---	Oct-08	---	---	---	0.50
Delaware Large Cap Growth Trust	---	---	---	---	---	---	Oct-08	---	---	---	0.40
Delaware Lg Cap Value Trust	---	---	---	---	---	---	Oct-08	---	---	---	0.65
Delaware Mid Cap Value I	DLMIX	-27.27%	---	---	---	---	Feb-08	---	---	-12.59%	1.00
Delaware Small Cap Growth Trust	---	---	---	---	---	---	Oct-08	---	---	---	0.53
Dodge & Cox International Stock	DODFX	-37.41%	-47.88%	-5.79%	5.75%	---	May-01	-28.37%	13.18%	8.99%	0.65
Harbor International Growth Instl	HAIGX	-39.19%	-52.51%	-5.03%	1.44%	-5.21%	Nov-93	-30.15%	9.11%	-1.21%	0.89
Vanguard Extended Market Idx Instl	VIEIX	-28.91%	-38.58	-6.16%	1.74%	3.96%	Jul-97	-19.80%	8.37%	7.11%	0.06
Vanguard Institutional Index	VINIX	-23.08%	-36.07%	-5.21%	0.26%	0.43%	Jul-90	-21.97%	5.16%	3.10%	0.05
Allocation Investments											
Delaware Conservative Allocation I	DFIIX	-12.53%	-19.12%	-1.40%	1.66%	2.51%	Dec-97	-10.82%	3.84%	3.59%	0.90
Delaware Moderate Allocation I	DFFIX	-16.67%	-26.58%	-3.35%	1.30%	2.24%	Dec-97	-16.06%	4.40%	3.79%	0.90
	DFGIX	-21.76%	-34.96%	-5.73%	0.69%	1.38%	Dec-97	-22.34%	4.74%	3.42%	0.90

Delaware Aggressive Allocation I											
Bond-Based Investments											
Delaware Diversified Income Trust	---	---	---	---	---	---	Oct-08	---	---	---	0.65
Cash and Stable Value											
Lincoln Stable Value Account	---	1.21%	4.95%	4.50%	4.32%	5.18%	May-83	4.95%	4.31%	5.19%	0.09
Employer Securities											
LNC Stock Unit Fund	LNC	-62.63%	-71.17%	-18.15%	-11.12%	-5.33%	---	-35.29%	5.68%	0.36%	---

*Average annual total return for period specified or since inception if the fund's age is less than the number of years shown.

± Expense ratios are net of any temporary fee waiver currently in effect. Please see the description of “Expense” for each option for more detail.

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Risks Associated with the Investment Options. It is important to keep in mind one of the main axioms of investing: the higher the risk of losing money, the higher the potential reward. The reverse, also, is generally true: the lower the risk, the lower the potential reward. As you consider investing in the Plan's Investment Options, you should take into account your personal risk tolerance. Diversification within your investment portfolio can reduce risk. Recent events in the financial sector and the corresponding market volatility reinforces the importance of a well-diversified portfolio, which is one of the most effective ways to ride out short-term market fluctuations. When you diversify your portfolio – whether by investing in a ready-mixed fund with exposure to a number of investment sectors, or by investing in a number of funds representing different asset classes or styles – you can potentially reduce risk and increase your exposure to various market opportunities.

The Investment Options are subject to one or more risks which are described in summary fashion in the section entitled "Primary Risks" for each Option, and in greater detail in the prospectus materials (for mutual funds), disclosure statements (for collective investment trusts), and miscellaneous disclosure materials referenced in this document. Please remember that this Investment Supplement is only a summary of those primary disclosure materials, and is not intended to replace or supersede those materials. Before investing, you should review the full explanation of risks associated with each investment before making a decision to invest. Copies of the prospectuses and disclosure statements for mutual funds and collective investment trusts are available by contacting Lincoln Alliance's Call Center at: 800-234-3500, or visiting its web site at: www.LincolnAlliance.com.

The following are summaries of the Prospectuses and Disclosure Statements related to the various options available. You should read the full Prospectuses and Disclosure Statements for an explanation of the Funds and risks involved in investing in any one of the funds.

Stock-Based Investments

American Funds Growth Fund of Amer R5 (Mutual Fund)

- Investment Objectives: The Fund seeks to provide growth of capital. The Fund's benchmark is the Morgan Stanley Capital® International, Europe, Australasia, Far East Index (MSCI®EAFE®). The MSCI® EAFE® is an unmanaged index of the world's stock markets, excluding the United States.

- Investment Strategies: The Fund invests primarily in common stocks of companies that appear to offer superior opportunities for growth of capital. The Fund may also hold cash or money market instruments. The Fund may invest up to 15% of its assets in securities of issuers domiciled outside the United States and Canada and not included in Standard & Poor's 500 Composite Index. The Fund may invest up to 10% of its assets in lower quality nonconvertible debt securities.

· Primary Risks: This Fund is designed for investors with a long-term perspective who are able to tolerate potentially wide price fluctuations as the growth-oriented equity-type securities generally purchased by the Fund may involve large price swings and potential for loss. In general, Investment in the Fund is subject to risks, including the possibility that the value of the Fund's portfolio holdings may fluctuate in response to events specific to the companies or markets in which the Fund invests, as well as economic, political or social events in the United States or abroad. For specific definitions/explanations of the risks associated with investments in this fund, please see the prospectus for this Fund.

- Manager: Capital Research and Management Company is the investment advisor.

· Expense: 0.35%. The Fund's investment advisor is currently waiving 10% of its management fees. The waiver may be discontinued at any time but is expected to continue at this level until further review. The estimated total annual Fund operating expenses without the waiver is 0.38%.

Columbia Acorn Fund (Mutual Fund)

- Investment Objectives: The Fund seeks long-term capital appreciation. The long-term investment objective is compared to those of the Russell 2500 Index, the fund's primary benchmark, the S&P 500® Index and the Russell 2000 Index.

Investment Strategies: Under normal circumstances, the Fund invests a majority of its net assets in small- and mid-sized companies with market capitalizations under $5 billion at the time of investment. The Fund may also invest up to 33% of its assets in foreign companies in developed markets such as Japan, Canada and the United Kingdom and in emerging markets such as China, India and Brazil.

- Primary Risks: Emerging Markets Securities Risk, Foreign Securities Risk, Industry Sector Risk, Investment Strategy Risk, Market Risk, Small Company Securities Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, investments in small- and mid-cap companies may be subject to greater volatility and price fluctuation because they may be thinly traded and less liquid, and may be affected by stock market fluctuations due to economic and business development. This Fund may invest in foreign securities, which may be subject to greater volatility than domestic investments.

- Manager: Columbia Wanger Asset Management, L.P.

- Expense: 0.74%

Delaware International Equity Trust (Collective Investment Trust)

- Investment Objectives: Trust seeks long term capital appreciation without undue risk to principal. The benchmark for the Trust is the MSCI® EAFE Index.

· Investment Strategies: The Trust is invested primarily in equity securities of issuers from foreign countries. The sub-advisor for the Trust, Delaware Investment Advisors ("DIA"), believes that the potential for strong returns can be realized by assembling an international portfolio of fundamentally strong companies that have superior business prospects and that are priced below Dow Industrial Average's (DIA) estimate of their intrinsic value. In selecting foreign stocks, DIA's philosophy is based on the concept that adversity creates opportunity and that transitory problems can be overcome by well-managed companies. DIA focuses on out-of-favor stocks that have the potential to realize their intrinsic value within a three to five year time horizon. The Trust may purchase securities in any foreign country, developed or emerging; however, it is currently anticipated to invest in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom.

- Primary Risks: Call Risk, Credit Risk, Currency Risk, Derivatives Risk, Emerging Market Risk, Foreign Government and Supranational Securities Risk, High-Yield, High Risk Foreign Fixed-Income Securities Risk Industry and Security Risk Inefficient Market Risk, Information Risk Interest Rate Risk, International Risk, Liquidity Risk, Manager Risk, Market Risk, Political Risk, Small Company Risk, Transactions Costs Risk, Turnover Risk. For specific definitions/explanations of these types of risks, please see the disclosure statement for this Trust. In general, foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries.

- Manager: AST Capital Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains ultimate fiduciary authority over the management of, and investments made, in the Trust. The Trustee is a wholly owned subsidiary of Wilmington Trust FSB and a Delaware State chartered trust company. The Trustee has engaged Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.

· Expense: 0.50%. For a limited time only, the fees and expenses will be reduced by temporary fee waivers for the period from October 1, 2008 through June 30, 2009 only. The estimated expense without the waiver is 0.90%. The Trust will be charged with additional operating expenses, including, without limitation, audit expenses, custody services fees, tax form preparation expenses, legal and other fees.

Delaware Large Cap Growth Trust (Collective Investment Trust)

- Investment Objectives: The Trust seeks long term capital appreciation. The benchmark for this Trust is the Russell 1000® Growth Index.

- Investment Strategies: The Trust is invested primarily in equity securities of large-capitalization companies that the Trust's sub-advisor, Delaware Investment Advisors ("DIA"), believes have the potential for sustainable free cash flow growth. The Trust currently considers a "large-capitalization company" to be a company within the range of market capitalization of companies in the Russell 1000 Growth Index at the time of purchase.

- Primary Risk: Credit Risk, Futures and Options Risks, Industry and Security Risk, International Risk, Liquidity Risk. For specific definitions/explanations of these types of risks, please see the disclosure statement for this Trust. In general, because this Trust expects to hold a more concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Trust's overall value to decline to a greater degree than a less concentrated portfolio. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards.

- Manager: AST Capital Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains ultimate fiduciary authority over the management of, and investments made, in the Trust. The Trustee is a wholly owned subsidiary of Wilmington Trust FSB and a Delaware State chartered trust company. The Trustee has engaged Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.

· Expense: 0.40%. For a limited time only, the fees and expenses will be reduced by temporary fee waivers for the period from October 1, 2008 through June 30, 2009 only. The estimated expenses without the waiver is 0.65%. The Trust will be changed with additional operating expenses, including, without limitation, audit expenses, custody service fees, tax form preparation expenses, retirement plan platform fees, legal and other fees.

Delaware Large Cap Value Trust (Collective Investment Trust)

- Investment Objectives: The Trust seeks long term capital appreciation. The benchmark for this Trust is the Russell 1000® Value Index.

- Investment Strategies: The Trust is invested primarily in securities of large-capitalization companies (with market capitalizations of $5 billion or greater at the time of purchase) that the sub-advisor believes to have long-term capital appreciation potential and are undervalued in relation to their intrinsic value as indicated by multiple factors including earnings and cash flow potential. The sub-advisor follows a value-oriented investment philosophy in selecting stocks for the Trust using a research intensive approach. The fund defines large-capitalization stocks as the stocks of companies with market capitalizations of $5 billion or greater at the time of purchase. The sub-advisor of the Trust, Delaware Investment Advisors seeks securities it believes are undervalued in relation to their intrinsic value as indicated by multiple factors including earnings and cash flow potential.

- Primary Risks: Call Risk, Currency Risk, Derivatives Risk, Emerging Markets Risk, Industry and Security Risk, Interest Rate Risk, International (Country) Risk, Liquidity Risk, Manager Risk, Market Risk, Turnover Risk. For specific definitions/explanations of these types of risks, please see the disclosure statement for this Trust. In general, because this Trust expects to hold a more concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Trust's overall value to decline to a greater degree than a less concentrated portfolio. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issues from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries.

- Manager: AST Capital Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains ultimate fiduciary authority over the management of, and investments made, in the Trust. The Trustee is a wholly owned subsidiary of Wilmington Trust FSB and a Delaware State chartered trust company. The Trustee has engaged Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.

· Expense: 0.65%. The Trust will be charged with additional operating expenses, including, without limitation, audit expenses, custody services fees, tax form preparation expenses, legal and other fees.

Delaware Mid Cap Value Fund (Mutual Fund)

- Investment Objectives: The Fund seeks capital appreciation.

- Investment Strategies: The Fund is invested primarily in medium-sized companies whose stock prices appear low relative to their underlying value or future potential. Under normal circumstances, at least 80% of the funds' net assets will be in investments of medium-sized companies (the 80% policy). Mid-sized companies would be those companies whose market capitalizations fall within the range represented in the Russell Midcap® Value Index at the time of the fund's investment. The fund's 80% policy can be changed without shareholder approval provided shareholders are given notice at least 60 days prior to any change.

- Primary Risks: Industry Risk, Interest Rate Risk, Liquidity Risk, Market Risk, Security Risk, Small Company Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, than those investing in larger, more established companies.

- Manager: Delaware Management Company.

· Expense: 1.00%. The Fund's investment manager has voluntary agreed to waive all or a portion of its investment management fees and pay/or reimburse expenses, in order to prevent the total annual fund operating expenses from exceeding 1.00% of the fund's average daily net assets. The waiver may be discontinued at any time. The estimated total annual fund operating expenses without the waiver is 2.06%.

Delaware Small Cap Growth Trust (Collective Investment Trust)

- Investment Objectives: The Trust seeks capital appreciation by investing primarily in securities of emerging or other growth-oriented companies. The Trust's benchmark is the Russell 2000® Growth Index.

- Investment Strategies: The Trust invests primarily in small companies that the sub-advisor believes offer above-average opportunities for long-term price appreciation because they are poised to benefit from changing and dominant trends within society or the political arena. The sub-advisor uses a bottom-up approach to stock selection that seeks market leaders, strong product cycles, innovative concepts, and industry trends. The sub-advisor relies on its own research in choosing securities for the Trust portfolio, reviewing price-to-earnings ratios, estimated growth rates, market capitalization, and cash flows, ultimately investing in: common stocks, American Depository Receipts (ADRs), repurchase agreements, restricted securities, illiquid securities, convertible securities, warrants, preferred stocks, bonds, and lending securities. The Trust may buy or sell securities on a "when issued" or "delayed delivery" basis, borrow money from banks as a temporary measure for extraordinary or emergency purposes, or to facilitate redemptions, or take temporary defensive positions.

· Primary Risks: Company Size Risk, Industry and Security Risk, Interest Rate Risk, International Risk, Liquidity Risk, Market Risk. For specific definitions/explanations of these types of risks, please see the disclosure statement for this Trust. In general, because this Trust expects to invest in the stocks of small and/or medium-sized companies typically involve greater risk, particularly in the short term, than those investing in larger, more established companies. Foreign investments are subject to risks and not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards.

- Manager: AST Capital Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains ultimate fiduciary authority over the management of, and investments made, in the Trust. The Trustee is a wholly owned subsidiary of Wilmington Trust FSB and a Delaware State chartered trust company. The Trustee has engaged Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.

· Expense: 0.53%. For a limited time only, the fees and expenses will be reduced by temporary fee waivers for the period from October 1, 2008 through June 30, 2009. The estimated expense without the waiver is 0.75%.

Dodge & Cox International Stock Fund (Mutual Fund)

- Investment Objectives: The Fund seeks long-term growth of principal and income. A secondary objective is to achieve a reasonable current income. The Fund's benchmark is the Morgan Stanley Capital® International, Europe, Australasia, Far East Index (MSCI®EAFE®). The MSCI®EAFE® is an unmanaged index of the world's stock markets, excluding the United States.

- Investment Strategies: The Fund invests primarily in a diversified portfolio of equity securities issued by non-U.S. companies from at least three different foreign countries, including emerging markets. The Fund focuses on countries whose economic and political systems appear more stable and are believed to provide some protection to foreign shareholders. The Fund invests primarily in medium-to-large well established companies based on standards of the applicable market.

- Primary Risks: Emerging Markets Risk, Equity Securities Risk, Fixed Income Securities Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, foreign investing, especially in developing countries, has special risks such as currency and market volatility and political and social instability. These and other risk considerations are discussed in the Fund's prospectus.

- Manager: Dodge & Cox

· Expense: 0.65%

Harbor International Growth Fund (Mutual Fund)

- Investment Objectives: The Fund seeks long term growth of capital. The benchmark for the fund is the MSCI® EAFE Growth Index.

· Investment Strategies: The Fund is invested primarily (no less than 65% of its total assets) in common stocks of foreign companies that are selected for their long-term growth potential. The Fund may invest in companies of any size throughout the world. The Fund normally invests in the securities or issuers that are economically tied to at least four different foreign countries. The Fund may invest up to 35% of its total assets, determined at the tine of purchase, in securities of companies operating in or economically tied to emerging markets. Some issuers or securities in the Fund's portfolio may be based in or economically tied to the United States. Harbor International Growth Fund's policy of investing in a narrowly focused selection of stocks may expose the Fund to the risk that a substantial decrease in the value of a stock may cause the net asset value of the Fund to fluctuate more than if the Fund were invested in a greater number of stocks. The Fund may also be subject to greater risks and higher brokerage and custodian expenses than funds invested only in the U.S. Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

- Primary Risk: Growth Style Risk, Emerging Markets Risk, Foreign Securities Risk, Market Risk, Portfolio Turnover Risk, Selection Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. The Fund's policy of investing in a narrowly focused selection of stocks may expose the Fund the risk that a substantial decrease in the value of a stock may cause the net asset value of the Fund to fluctuate more than if the Fund were invested in a greater number of stocks. The Fund may also be subject to greater risks and higher brokerage and custodian expenses than funds invested only in the U.S. Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

- Manager: Harbor Capital Advisors, Inc. maintains ultimate fiduciary authority over the management of, and investments made, in the Fund, and has engaged Marsico Capital Management LLC to act as the investment sub-advisor to the Fund.

- Expense: 0.89%. The fund's investment adviser has voluntary agreed to limit the fund's operating expenses to 0.89%. This agreement may be terminated at any time, although the adviser has no intention to do so. The operating expenses without the waiver is 0.98%.

Vanguard® Extended Market Index Fund (Mutual Fund)

- Investment Objectives: The Fund seeks to track the performance of a benchmark index that measures the investment return of small- and mid-capitalization stocks. The benchmark for this Fund is the Dow Jones Wilshire 4500 Completion Index, Spliced Extended Market Index and the S&P Completion Index.

- Investment Strategies: The Fund employs a "passive management" —or indexing—investment approach designed to track the performance of the Standard & Poor's Completion Index, a broadly diversified index of stocks of small and medium-size U.S. companies. The S&P Completion Index contains all of the U.S. common stocks regularly traded on the New York and American Stock Exchanges and the Nasdaq over-the counter market, except those stocks included in the S&P 500 Index. The Fund invests all, or substantially all, of its assets in stocks of its target index, with nearly 80% of its assets invested in 1,200 stocks in its target index (covering nearly 80% of the Index's total market capitalization), and the rest of its assets in a representative sample of the remaining stocks. The Fund holds a broadly diversified collection of securities that, in the aggregate, approximates the full Index in terms of key characteristics. These key characteristics include industry weightings and market capitalization, as well as certain financial measures, such as price/earnings ratio and dividend yield.

- Primary Risks: Investment Style Risk, Stock Market Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. The Fund is subject to stock market risk, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising or falling prices. The fund is also subject to investment style risk, which is the chance that returns from small- and mid-capitalization stocks will trail returns from the overall stock market. Historically, these stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently.

- Manager: The Vanguard Group, Inc. is the registered investment advisor.

· Expense: 0.06%

Vanguard® Institutional Index Fund (Mutual Fund)

- Investment Objectives: The Fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization stocks.

- Investment Strategies: The Fund employs a "passive management" –-or indexing—investment approach designed to track the performance of the Standard & Poor's 500 Index, a widely recognized benchmark of U.S. stock market performance that is dominated by the stocks of large U.S. Companies. The Fund tends to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Standard & Poor's 500 Index, holding each stock in approximately the same proportion as its weighting in the Index.

- Primary Risks: Investment Style, Stock Market Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, Vanguard funds classified as moderate to aggressive are broadly diversified but are subject to wide fluctuations in share price because they hold virtually all of their assets in common stocks. In general, such funds are appropriate for investors who have a long-term investment horizon (ten years or longer), who are seeking growth in capital as a primary objective, and who are prepared to endure the sharp and sometimes prolonged declines in share prices that occur from time to time in the stock market. This price volatility is the trade-off for the potentially high returns that common stocks can provide. The level of current income produced by funds in this category ranges from moderate to very low.

- Manager: The Vanguard Group, Inc. is the registered investment advisor.

· Expense: 0.05%

Asset Allocation Options

Each of the three Asset Allocation Options summarized below relies on active asset allocation and invests in a diversified portfolio of securities of different investment classes and styles as it strives to obtain its objectives. The Asset Allocation Options offer varying levels of income and growth potential and corresponding variations in risk: “conservative,” “moderate,” or “aggressive.”

Delaware Conservative Allocation Portfolio I (Mutual Fund)

- Investment Objectives: The Fund seeks a combination of current income and preservation of capital with capital appreciation. The benchmark for the Fund is the Lehman Brothers U.S. Aggregate Index.

Investment Strategies: The Fund invests in a combination of underlying securities representing a variety of asset classes and investment styles, using an active allocation approach. The Fund typically targets about 40% of its net assets in equity securities (with a range of 20% to 50%), and 60% of its net assets in fixed income securities (with a range from 50% to 80%). The following provides the target percentages of the Fund’s net assets in each style of underlying equity securities: U.S. equity, such as U.S. large cap core, U.S. large cap growth, U.S. large cap value, U.S. small cap core (target 20%, with a range of 5% to 30%); international equity, such as international value and international growth (target 15%, with a range of 5% to 30%); global real estate (target 0%, with a range from 0% to 15%); emerging markets (target 5%, with a range from 0% to 10%). The fixed income portion includes cash equivalents (target 2%, with a range of 0% to 20%).

- Primary Risks: The Fund has significant exposure to Interest Rate Risk, Credit Risk and Pre-payment Risk, due to its greater focus in the fixed income asset class and moderate exposure to Currency Risk due to its international holdings. Additional risks include Derivatives Risk, Emerging Markets Risk, Foreign Government and Supranational Securities Risks, Foreign Risk, Futures and Option Risk, High-Yield, High-Risk Foreign Income Securities Risk, Industry and Security Risk, Inefficient Market Risk, Information Risk, International Risk, Legislative and Regulatory Risks, Liquidity Risk, Loans and Other Direct Indebtedness Risks, Market Risk, Political Risk ,Real Estate Industry Risk, Small Company Risk, Transaction Cost Risk, Zero Coupon and Pay-in-Kind Bonds Risk, and Valuation Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, the Fund may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. The Fund’s investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds (“junk bonds”) involve higher risk than investment grade bonds. Adverse conditions may affect the issuer’s ability to pay interest and principal on these securities.

- Manager: Delaware Management Company, a series of Delaware Management Business Trust, which is a subsidiary of Delaware Management Holdings, Inc.

· Expense: 0.90%. On September 16, 2008, the Board of Trustees of the Delaware Group Foundation Funds unanimously approved a proposal to replace the "fund of funds" structure with a multiple portfolio manager approach (the "Restructuring"). The current fee—0.90%—reflects both a contractual waiver by the Manager through January 31, 2009, and a separate contractual waiver by the Manager for the one-year period following the Restructuring. The estimated total annual fund operating expenses without both contractual waivers is 1.47%.

Delaware Moderate Allocation Portfolio I (Mutual Fund)

- Investment Objectives: The Fund seeks capital appreciation with current income as a secondary objective. The Fund's benchmark is the S&P 500 Index and the Lehman Brothers U.S. Aggregate Index.

- Investment Strategies: The Fund invests in a combination of underlying securities representing a variety of asset classes and investment styles, using an active allocation approach. The Fund typically targets about 60% of its net assets in equity securities (with a range of 40% to 70%), and 40% of its net assets in fixed income securities (with a range from 30% to 60%). The following provides the target percentages of the Fund's net assets in each style of underlying equity securities: U.S. equity, such as U.S. large cap core, U.S. large cap growth, U.S. large cap value, U.S. small cap core (target 30%, with a range of 10% to 40%); international equity, such as international value and international growth (target 22.5%, with a range of 10% to 40%); global real estate (target 0%, with a range from 0% to 15%); emerging markets (target 7.5%, with a range from 0% to 15%). The fixed income portion includes cash equivalents (target 2%, with a range of 0% to 15%).

- Primary Risks: The Fund has significant exposure to Foreign Risk and Currency Risk, due to its international holdings and moderate exposure to Small Company Risk, Interest Rate Risk, Credit Risk and Emerging Markets Risk. Additional risks include Derivatives Risk, Foreign Government and Supranational Securities Risks, Futures and Option Risk; High-Yield, High-Risk Foreign Income Securities Risk, Industry and Security Risk, Inefficient Market Risk Information Risk, International Risk, Legislative and Regulatory Risks, Liquidity Risk, Loans and Other Direct Indebtedness Risks, Market Risk, Political Risk, Pre-payment Risk, Real Estate Industry Risk, Transaction Cost Risk, Zero Coupon and Pay-in-Kind Bonds Risk, and Valuation Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, this Fund may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Fund investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds ("junk bonds") involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. A rise/fall in the interest rates can have a significant impact on bond prices and the NAV (net asset value) of the Fund.

- Manager: Delaware Management Company, a series of Delaware Management Business Trust, which is a subsidiary of Delaware Management Holdings, Inc.

· Expense: 0.90%. On September 16, 2008, the Board of Trustees of the Delaware Group Foundation Funds unanimously approved a proposal to replace the "fund of funds" structure with a multiple portfolio manager approach (the "Restructuring"). The current fee—0.90%—reflects both a contractual waiver by the Manager through January 31, 2009, and a separate contractual waiver by the Manager for the one-year period following the Restructuring. The estimated total annual fund operating expenses without both contractual waivers is 1.51%.

Delaware Aggressive Allocation Portfolio I (Mutual Fund)

- Investment Objectives: The Fund seeks long-term capital growth. The benchmark for this Fund is the S&P 500 Index.

Investment Strategies: The Fund invests in a combination of underlying securities representing a variety of asset classes and investment styles, using an active allocation approach. The Fund typically targets about 80% of its net assets in equity securities (with a range of 55% to 90%), and 20% of its net assets in fixed income securities (with a range of 10% to 45%). The following provides the target percentages of the Fund's net assets in each style of underlying equity securities: U.S. equity, such as U.S. large cap core, U.S. large cap growth, U.S. large cap value, U.S. small cap core (target 40%, with a range of 15% to 50%); international equity, such as international value and international growth (target 30%, with a range of 15% to 50%); global real estate (target 0%, with a range from 0% to 20%); and emerging markets (target 0%, with a range from 0% to 20%). The fixed income portion includes cash equivalents (target 2%, with a range of 0% to 10%).

- Primary Risks: The Fund has significant exposure to Small Company Risk, Foreign Risk and Currency Risk due to its international holdings and moderate exposure to Interest Rate Risk and Emerging Markets Risk. Additional risks include Credit Risk, Derivatives Risk, Foreign Government and Supranational Securities Risks; Foreign Risk, Futures and Option Risk; High-Yield, High-Risk Foreign Income Securities Risk, Industry and Security Risk, Inefficient Market Risk Information Risk, International Risk, Legislative and Regulatory Risks, Liquidity Risk, Loans and Other Direct Indebtedness Risks, Market Risk, Political Risk, Pre-payment Risk, Real Estate Industry Risk, Transaction Cost Risk, Zero Coupon and Pay-in-Kind Bonds Risks, and Valuation Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. In general, the Fund may invest in international mutual funds, which are exposed to certain risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Note that funds investing in small- and/or medium-sized company stocks typically involve greater risk, particularly in the short term, then those investing in larger, more established companies. The Fund investments are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds ("junk bonds") involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. A rise/fall in the interest rates can have a significant impact on bond prices and the NAV (net asset value) of the Fund.

- Manager: Delaware Management Company, a series of Delaware Management Business Trust, which is a subsidiary of Delaware Management Holdings, Inc.

· Expense: 0.90%. On September 16, 2008, the Board of Trustees of the Delaware Group Foundation Funds unanimously approved a proposal to replace the "fund of funds" structure with a multiple portfolio manager approach (the "Restructuring"). The current fee—0.90%—reflects both a contractual waiver by the Manager through January 31, 2009, and a separate contractual waiver by the Manager for the one-year period following the Restructuring. The estimated total annual fund operating expenses without both contractual waivers is 1.63%.

Bond Options

Bond Options seek income or growth of income by investing primarily in income-producing securities such as corporate bonds, mortgages, government bonds, foreign bonds, convertible bonds, and preferred stocks. Bond Options generally have a lower potential for capital growth.

Delaware Diversified Income Trust (Collective Investment Trust)

- Investment Objectives: The Trust seeks maximum long-term total return, consistent with reasonable risk. The benchmark for the Trust is the Lehman Brothers U.S. Aggregate Bond Index.

- Investment Strategies: The Trust allocates its investments principally among the following sectors: U.S. investment grade, U.S. high yield, international developed markets, and emerging markets. Under normal circumstances, there is no limit to the amount of the Trust's assets that may be invested in the U.S. investment grade sector, with the Trust's manager investing primarily in debt obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities, and by U.S. corporations. U.S. investment grade securities include securities which are issued or guaranteed as to the payment of principal and interest by the U.S. government and its various agencies and instrumentalities, and mortgage-backed securities issued or guaranteed by the U.S. government. Under normal circumstances, between 5% and 50% of the Trust's assets will be invested in the U.S. high yield sector, including domestic high yield securities having a liberal and consistent yield and those tending to reduce the risk of market fluctuations, domestic corporate debt obligations, including notes, which may be convertible or non-convertible, commercial paper, units consisting of bonds with stock or warrants to buy stock attached, debentures, convertible debentures, zero coupon bonds, and pay-in-kind securities. U.S. high yield sector investments may also include rated and unrated bonds. The rated bonds purchase by the Trust are generally rated BB or lower by Standard & Poor's (S&P) or Fitch, Inc., Ba or lower by Moody's Investors Service, Inc., or similarly rated by another nationally recognized statistical rating organization. Investments in the international developed markets sector and the emerging markets sectors may range from 5% to 50% of the Trust's total assets on a combined basis; however, investments in the emerging markets sector will, in the aggregate be limited to no more than 15% of the Trust's total assets.. The international developed markets sector investments are primarily the fixed income securities of issuers organized or having the majority of their assets or deriving the majority of their operating income in international developed markets, and may include foreign government securities, debt obligations of foreign companies, and securities issued by supranational entities. Emerging markets sector investments may include the securities of issuers in any foreign country, developed and underdeveloped, as well as the direct obligations of such issuers. The Trust may also invest in sponsored and unsponsored American Depository Receipts (ADRs), European Depository Receipts (EDRs), Global Depository Receipts (GDRs), and zero coupon bonds.

- Primary Risks: The Trust has significant exposure to Credit Risk, Currency Risk, Derivatives Risk, Foreign Government Securities Risk, Futures and Option Risk , Interest Rate Risk, International

Risk, Legislative and Regulatory Risk, Liquidity Risk, Loans and Other Direct Indebtedness Risk, Market Risk, Pre-payment Risk , Zero Coupon and Pay-in-Kind Bonds Risk, Transaction Costs Risk, and Valuation Risk. For specific definitions/explanations of these types of risks, please see the disclosure statement for this Trust. In general, investments in the Delaware Diversified Income Trust are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds ("junk bonds") involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries. Diversification does not ensure a profit or guarantee against a loss. The Trust will also be affected by prepayment risk due to its holdings of mortgage-backed securities. With prepayment risk, when homeowners prepay mortgages during periods of low interest rates, the Trust may be forced to redeploy its assets in lower yielding securities. If, and to the extent that, the Trust invests in forward foreign currency contracts or uses other investments to hedge against currency risks, the Trust will be subject to the special risks associated with those activities.

- Manager: AST Capital Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains ultimate fiduciary authority over the management of, and investments made, in the Trust. The Trustee is a wholly owned subsidiary of Wilmington Trust FSB and a Delaware State chartered trust company. The Trustee has engaged Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.

- Expense: 0.70%

Stability of Principal Investment Options

Stability of Principal Investment Options are conservative investment options which seek to hold the principal value of an investment so that it is stable or close to stable through all market conditions. Stability of principal investment options may credit a stated rate of return or minimum periodic interest rate that may vary. These types of investments are often referred to as a "guaranteed account" or "money market account."

The Lincoln Stable Value Account (Insured Product)

- Investment Objectives: This Investment Option seeks to provide a competitive current interest rate that translates into the highest possible return with the lowest level of risk while also offering the protection of principal. Contributions made to the Lincoln Stable Value Account in any quarter will earn interest at the quarterly-set portfolio rate. The portfolio rate is declared for the quarter and is in effect only for that quarter. The portfolio rate is the three-year average of the Lehman Intermediate U.S. Government/Credit Index, plus 0.20%, as of one month prior to the beginning of each quarter. The guaranteed minimum crediting rate for the Lincoln Stable Value Account is 3.00%. The portfolio rate in effect for the fourth quarter (4Q) of 2008 is 4.95%. This formula is guaranteed for five (5) contract years (ending October 1, 2013). The Lincoln National Life Insurance Company will provide notice of a new formula prior to October 1, 2013. If the Lehman Intermediate U.S.

Government/Credit Index ceases to be published, The Lincoln National Life Insurance Company will select a comparable index.

- Investment Strategies: The Lincoln Stable Value Account is part of the general account of The Lincoln National Life Insurance Company and is backed by the general credit worthiness and the claims paying ability of The Lincoln National Life Insurance Company. The general account invests in investment and non-investment grade public companies, U.S. government bonds, high-quality corporate bonds, and other high-quality asset classes in keeping with the investment policy statement for the portfolio.

- Primary Risks: Credit Risk (the chance that the issuer of a security will fail to pay interest and principal in a timely manner, or that such companies or individuals will be unable to pay the contractual interest or principal on their debt obligations at all); Inflation Risk (the possibility that, over time, the returns will fail to keep up with the rising cost of living); Interest Rate Risk (the chance that bond prices overall will decline over short or even long periods due to rising interest rates); Liquidity Risk (the chance that the insured product is not backed by sufficient reserves to meet participant withdrawals, or would incur a market value adjustment or penalty for early withdrawal from one or more of its contracts); Manager Risk (the chance that poor security selection will cause the Stable Value Fund to under-perform other stability of principal investment options with similar objectives); Market Risk (the chance that the value of your investment will change because of rising (or falling) stock or bond prices). There is no government guarantee (such as the FDIC guarantee) protecting investments in the Lincoln Stable Value Account.

- Manager: Delaware Investment Advisers, a series of Delaware Management Business Trust, is the registered investment advisor.

· Expense: No asset charges are deducted from participant accounts. 0.09% is paid by The Lincoln National Life Insurance Company to Delaware Investment Advisers as a management fee and has effectively reduced the rate of return from the three-year average of the Lehman Intermediate U.S. Government/Credit Index, plus 0.29% to that rate of return plus 0.20%.

Lincoln National Corporation Stock Unit Fund

- Investment Objectives: This Investment Option is designed to provide participants with the opportunity to invest in employer securities.

- Investment Strategies: To achieve its objective, this Fund invests in hypothetical units reflecting the value of LNC Common Stock exclusively (though a certain percentage of the Fund is held in cash, and therefore, each Unit of the investment contains a similar percentage of cash).

· Primary Risks: Investment-Style Risk; Inflation Risk; Liquidity Risk; and Market Risk. This Fund is a non-diversified fund—it invests in the stock of a single issuer. It is therefore a riskier investment than an investment option that invests in a diversified pool of stocks of companies with similar characteristics as this Account. For a description of the risks associated with investment in Lincoln National Corporation, see “Risk Factors” beginning on page 3 of this Prospectus Supplement. It is a market-valued account, meaning that both the principal value and the investment return may go up and down on based the market price of the stock held in the Fund.

· Dividends: Dividends paid with respect to your investment in the LNC Stock Unit Fund will be automatically reinvested in LNC Stock Units-no action is required.

- Share Ownership: If you invest in this Fund you will not actually own or have the right to own shares of LNC Common Stock. In addition, neither the Plan nor a trust funding the Plan will own actual shares of LNC Common Stock. Instead, your Plan account will be credited with hypothetical LNC Stock Units equal in value to the amount of your contribution. You may become a direct owner of the shares of LNC Common Stock through the Plan only when you take a withdrawal or distribution and receive our Common Stock.

- Share Voting Rights: You will not have voting rights with respect to your investment in this Fund.

- Trading Restrictions: Officers and certain other employees of LNC (“Restricted Employees”) with access to inside information are subject to regular quarterly trading restrictions imposed by LNC on any transaction involving LNC securities, including derivative securities that might cause an increase or decreases in their interest in the Fund. Except for trading under a written securities trading plan meeting the requirements of Rule 10b5-1, Restricted Employees may only engage in fund switching transactions to increase or decrease their interest in this Investment Option during previously announced window trading periods described in LNC’s Insider Trading and Confidentiality Policy.

- Account Manager: Wilmington Trust Company.

- Expense: 0.00%

PLAN INTERESTS ARE SECURITIES

Persons participating in the Plan acquire an interest in the Plan assets held and administered by the Plan Trustee. This interest is itself a security and its acquisition entails the risk of loss as well as the possibility of gain. The character and extent of the participant’s interest in the Plan assets and his rights and options in relation thereto are discussed in detail in this prospectus supplement. Before deciding to participate, participants should carefully read this prospectus supplement and consider and assess the risks and opportunities in view of their individual situation.

LINCOLN NATIONAL CORPORATION COMMON STOCK AND PREFERRED STOCK

General. Our articles of incorporation currently authorize the issuance of 800,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. We may issue our Preferred Stock from time to time in one or more series by resolution of our board of directors. We have outstanding one series of Preferred Stock, consisting of LNC’s $3.00 Cumulative Convertible Preferred Stock, Series A (without par value), which

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we refer to as “Series A preferred stock.” At September 30, 2008, we had issued and outstanding 255,855,009 shares of Common Stock and 11,568 shares of Series A preferred stock.

The following descriptions of the classes of our capital stock are summaries, do not purport to be complete, and are subject, in all respects, to the applicable provisions of the Indiana Business Corporation Law, which we refer to the IBCL (described below), and our articles of incorporation (including a board of directors’ certificate of resolution designating the rights and preferences of the Series A preferred stock), our Registration Statement on Form 10 filed with the Securities and Exchange Commission on April 28, 1969, including any amendments or reports filed for the purpose of updating such description, which, in each case, are included as exhibits to the registration statement that includes this prospectus.

COMMON STOCK

Transfer Agent and Registrar. Our Common Stock is traded on the New York and Chicago Stock Exchanges under the symbol “LNC.” The registrar and transfer agent is BNY Mellon Shareowner Services.

Voting Rights. Except as set forth below under “Anti-Takeover Provisions—Certain State Law Provisions, each holder of record of our Common Stock is entitled to one vote for each share of our Common Stock held on all matters submitted to a vote of the shareholders, including election of directors. Holders of our Common Stock do not have cumulative voting rights with respect to the election of directors or any other matter.

Dividend Rights. The holders of our Common Stock may receive cash dividends, if and when declared by our board of directors out of funds legally available for that purpose, and subject to preferential rights of the holders of Preferred Stock or other special classes of stock.

Liquidation Rights. In the event of a liquidation, dissolution or winding up, holders of our Common Stock will be entitled to share ratably in all assets remaining after payments to creditors and after satisfaction of the liquidation preference, if any, of the holders of any Preferred Stock that may at the time be outstanding.

Preemptive Rights. Holders of our Common Stock do not have any preemptive or similar equity rights.

PREFERRED STOCK & SERIES A PREFERRED STOCK

General. Our articles of incorporation authorize our board of directors to provide for the issuance of up to 10 million shares of Preferred Stock, in one or more series, and to fix by resolution and to the extent permitted by the IBCL, the relative rights, preferences and limitations of each series of Preferred Stock, including dividend, redemption, liquidation, sinking fund, conversion and other provisions in the resolutions or certificate establishing or designating the series, without a vote or any other action taken by our shareholders.

Shares Outstanding. We currently have only one series of Preferred Stock outstanding, the Series A Preferred Stock. All outstanding shares of Series A preferred stock are duly authorized, validly issued, fully paid and non-assessable.

Voting Rights. Each holder of Preferred Stock of any series outstanding is entitled to one vote per share and to vote together, as a single class, with holders of our Common Stock on all matters submitted to a vote of the common shareholders.

Special Voting Rights With Respect to Directors. In the event that six or more quarterly dividends, whether or not consecutive, on any series of Preferred Stock are in default, the holders of any outstanding series of Preferred Stock as to which the default exists will be entitled, at the next annual meeting of shareholders, to vote as a class to elect two of our directors. This right will continue with respect to shares of cumulative Preferred Stock, including the Series A preferred stock, until all accumulated and unpaid dividends on all such shares, the holders of which are entitled to vote at the previous special meeting of shareholders, have been paid or declared and set aside for payment and, with respect to shares of non-cumulative Preferred Stock, if any, until any non-cumulative dividends have been paid or declared and set apart for payment for four consecutive quarterly dividend periods on all such shares, the holders of which were entitled to vote at the previous annual meeting of shareholders.

Other Special Voting Rights. In addition, the approval of the holders of record of at least two-thirds of the outstanding shares of all series of our Preferred Stock, voting as a class, will be required to take the following actions:

- amend our articles of incorporation to create or authorize any stock ranking prior to or on a parity with the outstanding Preferred Stock with respect to the payment of dividends or distributions upon dissolution, liquidation or winding up;

- to create or authorize any security convertible into shares of stock ranking prior to or on a parity with the outstanding Preferred Stock with respect to the payment of dividends or distributions upon dissolution, liquidation or winding up;

- amend, alter, change or repeal any of the express terms of any outstanding Preferred Stock, or any series thereof, in any prejudicial manner (provided only holders of two-third of the outstanding shares of the series prejudiced by such change or repeal need consent to such action);

- merge or consolidate with another corporation where we are not the surviving entity, if the rights, preferences or powers of the Preferred Stock would be adversely affected or if securities would thereupon be authorized or outstanding which could not otherwise have been created without the approval of the preferred shareholders; or

- authorize, or revoke a previously authorized, voluntary dissolution of LNC, approve any limitation of the terms of our existence, or authorize the sale, lease, exchange or other disposition of all or substantially all of our property.

Dividend Rights. To the extent permitted by law, holders of LNC Series A preferred stock are entitled to receive, but only when and as declared by our board of directors, cash dividends at the per annum rate of $3.00 per share, payable $0.75 per share quarterly. Dividends on the Series A preferred stock are cumulative.

Liquidation. Holders of Series A preferred stock are entitled to a liquidation preference of $80.00 per share, plus accrued dividends, before any assets may be distributed to holders of our Common Stock or any other stock ranking junior to the Series A preferred stock.

Redemption. The Series A preferred stock may be redeemed at any time at the option of our board of directors, in whole or in part, at a redemption price of $80.00 per share plus accrued but unpaid dividends.

Conversion. Each share of Series A preferred stock is currently convertible at the option of the holder thereof into sixteen shares of our Common Stock, subject to certain further adjustments. There is no conversion rate adjustment for a merger.

ANTI-TAKEOVER CONSIDERATIONS

Certain Provisions of LNC's Restated Articles of Incorporation. Our restated articles of incorporation provide that the affirmative vote of the holders of three-fourths of our voting stock is required to amend Article III, which deals with the number, classification, qualifications and removal of directors. Article III provides that the number of directors may be fixed in the bylaws, that qualifications for directors may be set in the bylaws, and that the bylaws may provide for classification of our board of directors. The bylaws can be amended only by action of our board of directors. Article III also provides that directors can be removed, with or without cause, at a meeting of shareholders called expressly for that purpose upon the affirmative vote of the holders of at least three-fourths of our voting stock.

The provisions of Article III requiring the affirmative vote of three-fourths of our voting stock to amend Article III could make it difficult for the shareholders to change the existing provision of that article, which, in turn, could discourage proxy contests and tender offers and make it more likely that incumbent directors will maintain their positions.

Article IV of our restated articles of incorporation also provide that no shares of the common stock of The Lincoln National Life Insurance Company, our primary insurance subsidiary, may be sold, leased, exchanged, mortgaged, pledged or otherwise disposed of except by the vote of the holders of three-fourths of our shares outstanding and entitled to vote thereon at an annual or special meeting of shareholders.

Article V of our restated articles of incorporation contains a "fair price" provision which requires, subject to certain exceptions, the holders of at least three-fourths of our voting stock to approve certain kinds of business combinations involving LNC and any shareholder holding 10% or more of our voting stock or certain affiliates of that shareholder unless:

- the transaction is approved by a majority of the members of our board of directors who are not affiliated with the 10% shareholder making the proposal; or
- the transaction meets certain minimum price and procedural requirements.

In either of these cases, only the normal shareholder and director approval requirements of the IBCL would govern the transaction. The "fair price" provision may be amended or repealed only upon the affirmative vote of the holders of at least three-fourths of our voting stock. The "fair price" provision is intended to increase the likelihood that all our shareholders will be treated similarly if certain kinds of business combinations are effected. The "fair price" provision may have the effect of making a takeover of us more expensive and may therefor discourage tender offers for less than three-fourths of our stock and acquisitions of substantial blocks of our stock with a view to acquiring control of us.

Certain State Law Provisions. Chapter 43 of the IBCL also restricts business combinations with interested shareholders. It prohibits certain business combinations, including mergers, sales of assets, recapitalizations, and reverse stock splits, between certain corporations having 100 or more shareholders that also have a class of voting shares registered with the SEC under Section 12 of the Securities Exchange Act of 1934 (which includes us) and an interested shareholder, defined as the beneficial owner of 10% or more of the voting power of the outstanding voting shares of that corporation, for five years following the date the shareholder acquired such 10% beneficial ownership, unless the acquisition or the business combination was approved by the board of directors in advance of that date. If the combination was not previously approved, the interested shareholder may effect a combination after the five-year period only if the shareholder receives approval from a majority of the disinterested shares or the offer meets certain fair price criteria. A corporation

may elect to opt out of these provisions in an amendment to its articles of incorporation approved by a majority of the disinterested shares. Such an amendment, however, would not become effective for 18 months after its passage and would apply only to stock acquisitions occurring after its effective date. Our restated articles of incorporation do not elect to opt out of these provisions.

Chapter 42 of the IBCL includes provisions designed to protect minority shareholders in the event that a person acquires, pursuant to a tender offer or otherwise, shares giving it more than 20%, more than 33 1/3%, or more than 50% of the outstanding voting power (which we refer to as “control shares”) of an “issuing public corporation.” Unless the issuing public corporation’s articles of incorporation or bylaws provide that Chapter 42 does not apply to control share acquisitions of shares of the corporation before the control share acquisition, an acquirer who purchases control shares cannot vote the control shares until each class or series of shares entitled to vote separately on the proposal, by a majority of all votes entitled to be cast by that group (excluding the control shares and any shares held by officers of the corporation and employees of the corporation who are directors thereof), approve in a special or annual meeting the rights of the acquirer to vote the control shares. Unless otherwise provided in a corporation’s articles of incorporation or bylaws before a control share acquisition has occurred, in the event that control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person acquires control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters’ rights to receive the fair value of their shares.

“Issuing public corporation” means a corporation which is organized in Indiana, has 100 or more shareholders, its principal place of business, its principal office or substantial assets within Indiana and one of the following:

- more than 10% of its shareholders resident in Indiana;
- more than 10% of its shares owned by Indiana residents; or
- 10,000 shareholders resident in Indiana.

An issuing public corporation may elect not to be covered by the statute by so providing in its articles of incorporation or bylaws. Our restated articles of incorporation do not elect to opt out of these provisions.

Indiana insurance laws and regulations provide that no person may acquire our voting securities if that person would directly or indirectly be in control of us after the acquisition, unless that person has provided certain required information to us and to the Indiana Insurance Commissioner and the Indiana Insurance Commissioner has approved the acquisition. Control of us is presumed to exist if any person beneficially owns 10% or more of our voting securities. Furthermore, the Indiana Insurance Commissioner may determine, after notice and hearing, that control exists despite the absence of a presumption to that effect. Consequently, no person may acquire, directly or indirectly, 10% or more of our voting securities to be outstanding after any offering of securities pursuant to this prospectus, or otherwise acquire control of us, unless that person has provided such required information to the Indiana Insurance Commissioner and the Indiana Insurance Commissioner has approved such acquisition.

EXPERTS

The consolidated financial statements of LNC included in LNC’s Annual Report (Form 10-K) for the year ended December 31, 2007 (including schedules appearing therein), and the effectiveness of LNC’s internal control over financial reporting as of December 31, 2007, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such financial statements and management's assessment of internal control over financial reporting are incorporated herein by reference in reliance upon such reports given on the

authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

The validity of our Common Stock offered hereby was passed upon for us by Dennis L. Schoff, Esquire, Senior Vice President and General Counsel of Lincoln National Corporation. As of September 30, 2008, Mr. Schoff beneficially owns approximately 174,500 shares of our Common Stock including options exercisable within sixty (60) days of the date of the Registration Statement. The validity of the interests in the Plan to which this prospectus relates was passed upon for the Plan by Karen F. Kanjian, Esquire, Second Vice President and Senior Counsel of LNC.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information and documents with the Securities and Exchange Commission, or SEC. You may read and copy any document we file with the SEC at:

- public reference room maintained by the SEC in: Washington, D.C. (100 F. Street, N.E., Room 1580, Washington, D.C. 20549). Copies of such materials can be obtained from the SEC’s public reference section at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at (800) SEC-0330, or

- the SEC website located at www.sec.gov.

This prospectus supplement is a combined prospectus, which is part of Registration Statements filed on Form S-1 and S-3 with the SEC under the Securities Act. This prospectus supplement does not contain all of the information set forth in the Registration Statements and the exhibits and schedules to the Registration Statements. For further information concerning us and the securities, you should read the entire Registration Statements and the additional information described under “Documents Incorporated by Reference” below. The Registration Statements have been filed electronically and may be obtained in any manner listed above. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statements or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference.

Information about us, including the additional information described under “Documents Incorporated by Reference” is also available on our web site at http://www.lincolnfinancial.com/investors. This URL and the SEC’s URL above are intended to be inactive textual references only. Such information on our or the SEC’s web site is not a part of this prospectus supplement.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents have been filed (File No. 1-6028) with the SEC in accordance with the provisions of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and are incorporated by reference in this prospectus supplement:

- LNC's Annual Report on Form 10-K for the fiscal year ended December 31, 2007;

· LNC's Quarterly Report on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2008;

· LNC's Current Reports on Form 8-K filed with the SEC on February 13, April 1, (except Item 7.01 on such Form 8-K shall not be deemed incorporated by reference herein), May 6, August 18, September 30, October 10 (except Item 2.02 of such Form 8-K shall not be deemed incorporated by reference herein), and November 17, 2008 (except Item 7.01 of such Form 8-k shall not be deemed incorporated by reference herein); and

- The description of LNC's Common Stock contained in Form 10 filed with the SEC on April 28, 1969, including any amendments or reports filed for the purpose of updating that description.

Each LNC document filed subsequent to the date of this prospectus supplement pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this prospectus supplement and to be a part hereof from the date of the filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained herein (or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein) modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus supplement.

We will provide without charge to each person to whom this prospectus supplement is delivered, upon the written or oral request of such person, a copy of the documents incorporated by reference as described above (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into such documents), copies of all documents constituting part of the prospectus for the Plan, and copies of the Plan. Please direct your oral or written request to: C. Suzanne Womack, 2nd Vice President & Secretary, 150 N. Radnor Chester Road, Radnor, PA 19342, 484-583-1400, or swomack@lfg.com.