

LINCOLN NATIONAL CORP
 Form 424B2
 June 14, 2010
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying base prospectus are not an offer to sell these securities, and are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(2)
 Registration Statement No. 333-157822

Subject to Completion, dated June 14, 2010

Preliminary Prospectus Supplement

(To prospectus dated March 10, 2009)

\$335,000,000

Lincoln National Corporation

Common Stock

We are offering _____ shares of our common stock, no par value per share. Our common stock is listed on the New York and Chicago Stock Exchanges under the symbol LNC. On June 11, 2010, the last reported sale price of our common stock on the New York Stock Exchange was \$26.36 per share.

We also plan to offer, by means of one or more separate prospectus supplements, up to \$750 million aggregate principal amount of senior notes, referred to as the _____ notes. There can be no assurance that our planned offering of notes, referred to as the _____ planned note offering, will be completed. The completion of this offering is not conditioned on the completion of the planned note offering, and the completion of the planned note offering is not conditioned on the completion of this offering.

The shares of common stock are not savings accounts, deposits or other obligations of a bank or non-bank subsidiary of Lincoln National Corporation. They are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to us before expenses	\$	\$

The underwriters also may purchase up to an additional _____ shares of common stock at the public offering price, less the underwriting discounts and commissions, within 30 days of the date of this prospectus supplement.

Investing in our common stock involves risks. See Risk factors beginning on page S-4 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying base prospectus is truthful or complete. Any representation to the

contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment therefor in immediately available funds on or about June , 2010.

Global Coordinator

J.P. Morgan

Joint Book-Running Managers

Credit Suisse

Morgan Stanley
Co-Managers

Wells Fargo Securities

Deutsche Bank Securities UBS Investment Bank
Sandler O'Neill + Partners, L.P.

June , 2010

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying base prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying base prospectus are an offer to sell only the shares of common stock offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying base prospectus is current only as of their respective dates.

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About this prospectus supplement

You should rely only on the information contained, or incorporated by reference, in this prospectus supplement and the accompanying base prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the securities in any jurisdiction where the offer or sale is not permitted or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. You should not assume that the information in this prospectus supplement, the accompanying base prospectus or any document incorporated by reference is accurate or complete as of any date other than the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying base prospectus. The second part, the accompanying base prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information contained in this prospectus supplement.

Unless otherwise indicated, or the context otherwise requires, references in this prospectus supplement and the accompanying base prospectus to LNC, we, us, and our or similar terms are to Lincoln National Corporation and its subsidiaries.

Cautionary statement regarding forward-looking statements

Except for historical information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus, statements made, or incorporated by reference, in this prospectus supplement and the accompanying base prospectus are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, or PSLRA. A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: believe, anticipate, expect, estimate, project, will, shall and other words or with similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our business, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

Significant stock market fluctuations, dilution of our equity as well as restrictions on the payment of our common stock dividends that may adversely affect the price of our common stock;

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Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;

Economic declines and credit market illiquidity could cause us to realize additional impairments on investments and certain intangible assets, including goodwill and a valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;

Uncertainty about the impact of existing or new stimulus legislation on the economy;

The risk that our actual sources and uses of capital in a stress scenario may vary materially and adversely from our modeled projected sources and uses of capital that we disclosed in connection with our planned repurchase of our Fixed Rate Cumulative Perpetual Preferred Stock, Series B, or the Series B preferred stock, whether as a result of one or more assumptions proving to be materially inaccurate or as a result of our exposure to other risks during stressed economic conditions that were not taken into account in preparing such modeled projections;

The cost and other consequences of our participation in the U.S. Department of the Treasury's, or the U.S. Treasury, Troubled Asset Relief Program, or TARP, Capital Purchase Program, or CPP, certain requirements of which may continue to apply to us so long as the warrant originally issued to the U.S. Treasury remains outstanding;

Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital, or RBC, requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline 43, or AG43 (also known as Commissioners Annuity Reserve Valuation Method for Variable Annuities, or VACARVM); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;

The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and extra-contractual and class action damage cases; new decisions that result in changes in law; and unexpected trial court rulings;

Changes in interest rates causing a reduction of investment income, the margins of our subsidiaries' fixed annuity and life insurance businesses and demand for their products;

A decline in the equity markets causing a reduction in the sales of our subsidiaries' products, a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products, an acceleration of amortization of deferred acquisition costs, or DAC, value of business acquired, or VOBA, deferred sales inducements, or DSI, and deferred front end sales loads, or DFEL, and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;

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Ineffectiveness of our various hedging strategies used to offset the impact of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;

A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in elevated impairments on investments and amortization of intangible assets that may cause an increase in reserves and/or a reduction in assets, resulting in a corresponding decrease in net income;

Changes in accounting principles generally accepted in the United States, or GAAP, that may result in unanticipated changes to our net income;

Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on our ability to raise capital and on our liquidity and financial condition;

Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;

Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in our portfolios requiring that we realize losses on such investments;

The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including our ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;

The adequacy and collectibility of reinsurance that we have purchased;

Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;

Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;

The unknown impact on our subsidiaries' businesses resulting from changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and

Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this prospectus supplement, including Risk factors beginning on page S-4, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission, or SEC, include additional factors that could impact our business and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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Further, it is not possible to assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this prospectus supplement.

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Summary

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying base prospectus and the documents incorporated by reference. This summary sets forth the material terms of this offering, but does not contain all of the information you should consider before investing in our common stock. You should read carefully this entire prospectus supplement and the accompanying base prospectus, including the documents incorporated by reference in this prospectus supplement and the accompanying base prospectus, before making an investment decision to purchase our common stock, especially the risks of investing in our common stock discussed in the section entitled "Risk factors" in this prospectus supplement as well as the consolidated financial statements and notes to those consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying base prospectus.

LNC

For a detailed description of LNC's business, the latest financial statements of LNC, management's discussion and analysis of LNC's financial condition and results of operations, and other important information concerning LNC, please refer to LNC's Annual Report on Form 10-K for the year ended December 31, 2009, LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and other documents filed with the SEC, which are incorporated by reference into this prospectus supplement and the accompanying base prospectus. For more information, see "Documents Incorporated by Reference" in the accompanying base prospectus.

LNC is a holding company, which operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include fixed and indexed annuities, variable annuities, universal life insurance, or UL, variable universal life insurance, or VUL, linked-benefit UL, term life insurance, mutual funds and group protection. LNC was organized under the laws of the state of Indiana in 1968. We currently maintain our principal executive offices at 150 N. Radnor Chester Road, Radnor, Pennsylvania 19087, and our telephone number is (484) 583-1400. Lincoln Financial Group is the marketing name for LNC and its subsidiary companies. As of March 31, 2010, LNC had consolidated assets of \$181.6 billion and consolidated stockholders' equity of \$12.4 billion. For the three months ended March 31, 2010, LNC had total revenue of \$2.5 billion and net income of \$283 million. For the year ended December 31, 2009, LNC had total revenue of \$8.5 billion and net loss of \$485 million.

We provide products and services in two operating businesses and report results through four business segments, as follows:

Business	Corresponding segments
Retirement Solutions	Annuities
	Defined Contribution
Insurance Solutions	Life Insurance
	Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Other Operations also includes investments related to

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the excess capital in our insurance subsidiaries; investments in media properties and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance to Swiss Re Life & Health America Inc., referred to as Swiss Re, in 2001; the results of certain disability income business due to the rescission of a reinsurance agreement with Swiss Re; our run-off institutional pension business; and debt costs.

Our former Lincoln UK and Investment Management segments are reported in discontinued operations for all periods presented. See Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Acquisitions and Dispositions and Part II Item 8. Financial Statements and Supplementary Data Note 3 in LNC's Annual Report on Form 10-K for the year ended December 31, 2009.

Repurchase of our Series B Fixed Rate Cumulative Perpetual Preferred Stock

In July 2009, we issued 950,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series B, or the Series B preferred stock, to the U.S. Treasury in connection with our participation in the TARP CPP. The U.S. Treasury also received a warrant to purchase 13,049,451 shares of our common stock at an exercise price of \$10.92 per share, subject to adjustment, which expires ten years from the issuance date. The Series B preferred stock and the warrant were issued pursuant to a Letter Agreement dated July 10, 2009 and the Securities Purchase Agreement Standard Terms attached thereto, which we collectively refer to as the CPP Purchase Agreement, for an aggregate purchase price of \$950 million.

Following completion of this offering and the \$250 million portion of our planned note offering described below, and subject to the approval of the U.S. Treasury, we will repurchase all 950,000 shares of the Series B preferred stock. See Use of proceeds in this prospectus supplement. There can be no assurance, however, that the U.S. Treasury will approve the repurchase of the Series B preferred stock. We do not intend to repurchase the warrant.

The repurchase of the Series B preferred stock would have resulted in a charge to income available to common shareholders of approximately \$138 million as of March 31, 2010 (approximately \$131 million as of June 30, 2010 on a pro forma basis), representing the accretion of the discount on the Series B preferred stock at liquidation. In addition, upon the repurchase of the Series B preferred stock, the annual dividends of \$47.5 million payable on the Series B preferred stock will be eliminated. We will incur additional interest expense related to the issuance of the notes in the planned note offering.

Planned note offering

We plan to offer, under one or more separate prospectus supplements, up to \$750 million aggregate principal amount of senior notes. We intend to use the net proceeds from the \$250 million portion of our planned note offering to fund, in part, our repurchase of the Series B preferred stock. Depending upon market conditions and final terms, we plan to offer up to the remaining \$500 million aggregate principal amount of senior notes and use the net proceeds therefrom as part of a long-term financing solution supporting the universal life reserves of our insurance subsidiaries. There can be no assurance as to the ultimate amount that we will raise in our planned note offering or that our planned note offering will be completed. The completion of this offering is not conditioned on the completion of the planned note offering, and the completion of the planned note offering is not conditioned on the completion of this offering.

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Summary of the offering

Issuer	Lincoln National Corporation.
Securities Offered	shares of common stock, no par value per share.
Option to Purchase Additional Shares	We have granted the underwriters an option to purchase up to an additional 15 percent of the offered amount, or shares of common stock.
Dividends	We currently pay a quarterly dividend of \$.01 per share. For information regarding restrictions on our ability to pay dividends, see Common stock price range and dividends.
Common Stock Outstanding After This Offering	shares of common stock (shares of common stock if the underwriters exercise their option to purchase additional shares in full), in each case based on 302,507,880 shares of common stock outstanding as of June 3, 2010.
Use of Proceeds	We intend to use the net proceeds from this offering of our common stock, together with the net proceeds from the \$250 million portion of our planned note offering and available funds, to repurchase in full, once we have received approval of the U.S. Treasury to do so, the Series B preferred stock held by the U.S. Treasury pursuant to our participation in the TARP CPP. Pending such use we will invest the proceeds in short-term, investment grade investments. If the U.S. Treasury does not approve our request to repurchase the Series B preferred stock, we will use the net proceeds of this offering for general corporate purposes. In addition, we expect to use the remaining net proceeds, if any, from our planned note offering as part of a long-term financing solution supporting the universal life reserves of our insurance subsidiaries. See Use of proceeds.
Risk Factors	See Risk factors beginning on page S-4 and other information included or incorporated by reference in this prospectus supplement and the accompanying base prospectus for a discussion of factors you should consider carefully before investing in our common stock.
Transfer Agent and Registrar	BNY Mellon Shareowner Services.
New York and Chicago Stock Exchanges Symbol	LNC.

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Risk factors

Your investment in our common stock involves risks. You should carefully consider the risks described below as well as other information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus, including our financial statements and the notes thereto, before making an investment decision. The risks and uncertainties described below and incorporated by reference into this prospectus supplement and the accompanying base prospectus are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our common stock could decline substantially.

Risk factors relating to our common stock

The price of our common stock may fluctuate significantly, and you could lose part or all of your investment.

Stock markets in general, including our common stock, have experienced price and volume volatility in the past year. The market price and volume of our common stock may continue to be subject to fluctuations due not only to general stock market conditions but also to a change in sentiment in the market, especially by research analysts who follow our stock, regarding our operations, business prospects or future funding. In addition, the price and volume volatility of our common stock may be affected by:

Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;

Economic declines and credit market illiquidity that could cause us to realize additional impairments on investments and certain intangible assets, including goodwill and a valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;

Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or RBC requirements related to secondary guarantees under universal life and variable annuity products such as VACARVM; restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;

Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on our ability to raise capital and on our liquidity and financial condition;

Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention and profitability of our insurance subsidiaries;

Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;

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Actions by our current shareholders or warrant holders, including sales of common stock by existing securityholders, including the U.S. Treasury, and/or directors and executive officers;

Loss of key management, financial planners or wholesalers; and

Other factors described in this Risk factors section and Cautionary statement regarding forward-looking statements in this prospectus supplement and other information which may be incorporated by reference in this prospectus supplement and the accompanying base prospectus after the date hereof.

The risks included herein are not exhaustive. An increase in volatility could result in a decline in the market price of our common stock.

In addition, in the recent past, the stock market has experienced extreme price and volume fluctuations. This volatility had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes appeared to occur without regard to the operating performance of these companies. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Except as described under the heading Underwriting, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of our common stock or convertible securities or the exercise of such securities will dilute the ownership interest of our existing holders of common stock. For instance, the liquidation of or the exercise of the warrants issued to the U.S. Treasury due to the fact we will not repurchase the warrants when we repurchase our Series B preferred stock or any anti-dilution adjustments triggered on such warrants would dilute the value of our common shares. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. As part of this offering, we expect to issue _____ shares of our common stock (or _____ shares of our common stock if the underwriters exercise their option to purchase additional shares in full). For additional information regarding issuances of our common stock or equity-related securities, see Risk factors relating to our business. We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders' equity levels.

Sales of a substantial number of shares of our common stock or other securities that are convertible into, or of securities that represent the right to receive, our common stock (including the warrants issued to the U.S. Treasury) could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

Holders of our common stock are subject to restrictions on the payment of dividends.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Furthermore, holders of our common stock are subject to restrictions on the payment of dividends contained in our debt

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instruments and prior dividend rights of holders of our preferred stock. As of June 3, 2010, 11,365 shares of Series A preferred stock were issued and outstanding, on which we pay quarterly dividends of \$0.75 per share and 950,000 shares of Series B preferred stock were issued and outstanding, which are entitled to cumulative dividends payable at a rate of 5%, or \$47.5 million, per annum until July 10, 2014 and thereafter at a rate of 9% per annum, or \$85.5 million.

Under the terms of our outstanding preferred stock, our ability to declare and pay dividends on or repurchase our common stock is subject to restrictions in the event we fail to declare and pay (or set aside for payment) full dividends on such preferred stock. In addition, under the terms of the CPP Purchase Agreement, except in limited circumstances, the consent of the U.S. Treasury is required for us to, among other things, increase our quarterly common stock dividend above \$0.01 prior to the third anniversary of the U.S. Treasury's investment unless we have repurchased all of the Series B preferred stock or the U.S. Treasury has transferred all of such preferred stock to third parties. We intend to use the net proceeds from this offering, together with the net proceeds from the \$250 million portion of our planned note offering and available funds, to repurchase all outstanding shares of the Series B preferred stock, subject to the approval of the U.S. Treasury.

The issuance of additional series of our preferred stock could adversely affect holders of our common stock, which may negatively impact your investment.

Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of the shareholders. Our board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including dividend rights and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue additional preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding-up, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Our common stock is equity and is subordinate to our existing and future indebtedness and preferred stock and effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.

Shares of our common stock are equity interests in us and do not constitute indebtedness. As such, shares of our common stock rank junior to all of our indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including in our liquidation. Additionally, holders of our common stock are subject to the prior dividend and liquidation rights of holders of our outstanding preferred stock. Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of the holders of our common stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors, including holders of any preferred stock. As of March 31, 2010, we had \$5.1 billion of outstanding long-term debt, and the aggregate liquidation preference of all our outstanding preferred stock was \$951 million. If we repurchase our outstanding Series B preferred stock and issue \$750 million aggregate principal amount of senior notes pursuant to our planned note offering as described above, then, on a pro forma basis, we will have \$5.8 billion of outstanding long-term debt, and the aggregate liquidation preference of all our outstanding preferred stock will be approximately \$1 million.

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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 shareholders, 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 our 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. Similarly, as a result of our ownership of Newton County Loan & Savings, FSB, referred to as NCLS, LNC is considered to be a savings and loan holding company. Federal banking laws generally provide that no person may acquire control of LNC, and gain indirect control of NCLS, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of LNC would be presumed to constitute control.

Risk factors relating to our business

Adverse capital and credit market conditions may affect our ability to meet liquidity needs, access to capital and cost of capital.

The capital and credit markets have experienced extreme volatility and disruption for more than twelve months. During this period, the markets exerted downward pressure on availability of liquidity and credit capacity for certain issuers.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, to maintain our securities lending activities and to replace certain maturing

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liabilities. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer. As a holding company with no direct operations, our principal asset is the capital stock of our insurance 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 significantly 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 and regulations of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. Changes in these laws could 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. For our insurance and other subsidiaries, the principal sources of our liquidity are insurance premiums and fees, annuity considerations and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. At the holding company level, sources of liquidity in normal markets also include a variety of short-term liquid investments and short- and long-term instruments, including credit facilities, commercial paper and medium- and long-term debt.

In the event that current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if we incur large investment losses or if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. See Part I Item 1. Business Ratings in LNC's Annual Report on Form 10-K for the year ended December 31, 2009, Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Executive Summary Current Market Conditions in LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and Item 8.01 Other Events in LNC's Current Report on Form 8-K filed on June 2, 2010 for a description of our ratings. Our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; generate fee income and market-related revenue to meet liquidity needs; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter term securities than we prefer or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility. A widening of our credit spreads could increase the interest rate we must pay on any new debt obligation we may issue. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

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Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations and we expect any recovery to be slow.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 substantially increased during the second half of 2008 and continued through the first part of 2009. Concerns over unemployment, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. contributed to increased volatility and diminished expectations for the economy and the markets going forward. These events and the reemergence of market upheavals may have an adverse effect on us, in part because we have a large investment portfolio and are also dependent upon customer behavior. Our revenues are likely to decline in such circumstances and our profit margins could erode. In addition, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses. For example, for the year ended December 31, 2009, our earnings were unfavorably affected by realized investment losses and impairments of intangible assets of \$1.1 billion. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our contract holders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition.

Although we intend to repurchase our Series B preferred stock issued to the U.S. Treasury under the TARP CPP following this offering and the planned note offering, we may not be able to do so if this offering and the planned note offering are not completed or if the U.S. Treasury does not approve the repurchase of the Series B preferred stock. Even if we complete that repurchase, we will remain subject to certain restrictions, oversight and costs that could materially affect our business, results of operations and prospects.

Following the repurchase of the Series B preferred stock issued to the U.S. Treasury, many of the restrictions associated with participation in the TARP CPP will no longer apply to us. We believe that, effective from and after the date we repurchase the Series B preferred stock, limitations on the amount and form of bonus, retention and other incentive compensation that TARP CPP participants may pay to executive officers and senior management will no longer apply. We expect to use proceeds from this offering and the planned note offering to fund, together with available cash, this repurchase. If we are unable to complete these offerings, however, we may not be able to repurchase the Series B preferred stock. If we cannot repurchase all of the Series B preferred stock as a result, or if the U.S. Treasury does not approve the repurchase, we would remain subject to all of the restrictions on our operations associated with participation in the TARP CPP, including on executive compensation, which could impair our ability to attract and retain key personnel. We would also remain subject to limitations on our ability to increase our quarterly dividend on our common stock, as well as our ability to repurchase shares of our common stock, absent the approval of the U.S. Treasury.

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We will continue to be a savings and loan holding company by virtue of our ownership of NCLS. We will therefore remain subject to various restrictions, oversight and costs and other potential consequences that could materially affect our business, results of operations and prospects, including the following:

As a savings and loan holding company, we may be subject to additional federal legislation currently proposed in Congress, such as the restrictions on proprietary trading activities contained in the Senate's version of H.R. 4173, The Wall Street Reform and Consumer Protection Act of 2009, which would be imposed on all of the subsidiaries and affiliates within a holding company system that contains a depository institution.

Assuming the repurchase of all of the Series B preferred stock, we believe the limitations on the amount and form of bonus, retention and other incentive compensation that we may pay to executive officers and senior management will no longer apply to us from and after the repurchase date. Nevertheless, recipients of federal assistance continue to be subject to intense scrutiny, and future regulatory initiatives could be adopted at the federal or state level that have the effect of constraining the business or management of those enterprises. For example, the White House has proposed a financial crisis responsibility tax that would be levied on the largest financial institutions in terms of assets for at least the next ten years to recoup any shortfall from the TARP. We cannot predict the scope or impact of future regulatory initiatives or the effect that they may have on our ability to attract and retain key personnel, the cost and complexity of our compliance programs or on required levels of regulatory capital.

Future federal statutes may adversely affect the terms of the TARP CPP that remain applicable to us following the repurchase of the Series B preferred stock, and the U.S. Treasury may amend the terms of our agreement unilaterally if required by future statutes, including in a manner materially adverse to us.

The stress scenario modeled projections and the related assumptions that we have disclosed in connection with our planned repurchase of the Series B preferred stock have been prepared for purposes of planning the public offerings discussed herein. Actual sources and uses of capital under stressed economic conditions may vary significantly, as the stress scenario does not incorporate all risks to which we would be exposed under stressed economic conditions and the models used may, in any event, produce inaccurate projections. Investors are cautioned that the stress scenario modeled projections and related assumptions are therefore of limited value in assessing our future prospects.

In connection with determining the structure and size of our capital raise for the planned repurchase of the Series B preferred stock held by the U.S. Treasury, we have utilized stress model projections that depend on a variety of factors and assumptions each of which is subject to business, economic and competitive uncertainties and contingencies that are inherently unpredictable. Using these stress model projections, we have also illustrated the potential sources and uses of capital during 2010 and 2011. We have created these hypothetical stress-scenario models on the basis of fundamental assumptions about the performance of key variables, including, among others, stressed equity market levels and losses in the residential and commercial real estate markets. The stress-scenario models resulting from these assumptions not only illustrate hypothetical sources and uses of capital, but also produce assumed stress-scenario values for a variety of other variables that can independently significantly affect surplus. Although our modeled stress-scenario projections reflect assumptions about the adverse performance of these other variables, they do not reflect further impacts on surplus that could arise from additional, discrete adverse performance of these other variables. The actual

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performance of these other variables, which include, but are not limited to, interest rates, market volatility and contract holder behavior, may differ materially from the assumptions included in the projections and may, as a result, cause actual results in a stress scenario to differ materially from those that were projected. Moreover, our assumptions do not reflect all risks to which we would be exposed under stressed economic conditions. As a result, actual results may differ, and in the past have differed, materially from projected results. Investors are cautioned that the stress scenario modeled projections and related assumptions are therefore of limited value in assessing our future prospects.

No outside party has approved or provided any other form of assurance with respect to these projections, and these projections have not been examined by any independent expert. Projections are also necessarily speculative in nature and the risk that our modeled projections will be wrong is increased as a result of the number and nature of the variables underlying the assumptions on which they are based and the fact that they do not reflect other important risks that would be present in a severely constrained operating environment as described above. Many of these variables are also beyond our control and influenced by a variety of factors, and it can be expected that one or more of our assumptions will prove to be incorrect, possibly in material ways, especially in a stress scenario. Moreover, the reliability of forecasted information diminishes the farther in the future that data is projected. Our actual sources and uses of capital in a stress scenario may vary significantly and adversely from those we have projected. Investors are accordingly cautioned not to place undue reliance on information included or incorporated by reference in this prospectus supplement relating to our projected capital position in these stress scenarios, and investors should also understand that these projections are of limited value in assessing our prospects in an environment that is not subject to stress assumptions. Because we have prepared this information for purposes of determining the structure and size of our capital raise for the planned repurchase of the Series B preferred stock, we do not undertake to update this information.

If our businesses do not perform well and/or their estimated fair values decline or the price of our common stock does not increase, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the acquisition price incurred to acquire subsidiaries and other businesses over the fair value of their net assets as of the date of acquisition. As of March 31, 2010, we had a total of \$3.0 billion of goodwill on our Consolidated Balance Sheets, of which \$2.2 billion related to our Insurance Solutions Life Insurance segment and \$440 million related to our Retirement Solutions Annuities segment. We test goodwill at least annually for indications of value impairment with consideration given to financial performance and other relevant factors. In addition, certain events, including a significant and adverse change in legal factors or the business climate, an adverse action or assessment by a regulator or unanticipated competition, would cause us to review the carrying amounts of goodwill for impairment. Impairment testing is performed based upon estimates of the fair value of the reporting unit to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. If the implied fair value of the reporting unit's goodwill is lower than its carrying amount, goodwill is impaired and written down to its fair value, and a charge is reported in impairment of intangibles on our Consolidated Statements of Income (Loss). For the year ended December 31, 2009, we took total pre-tax impairment charges of \$680 million, primarily related to our annuities business.

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Subsequent reviews of goodwill could result in additional impairment of goodwill during 2010, and such write-downs could have a material adverse effect on our results of operations and financial position, but will not affect the statutory capital of our insurance subsidiaries. For more information on goodwill, see Part II Item 8. Financial Statements and Supplementary Data Note 10 and Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Critical Accounting Policies and Estimates Goodwill and Other Intangible Assets included in LNC's Annual Report on Form 10-K for the year ended December 31, 2009.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business, including the ability to generate capital gains from a variety of sources and tax planning strategies. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. Such valuation allowance could have a material adverse effect on our results of operations and financial position, but will not affect the statutory capital of our insurance subsidiaries.

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 subsidiaries. At the holding company level, sources of liquidity in normal markets include a variety of short- and long-term instruments, including credit facilities, commercial paper and medium- and long-term debt. However, our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders, repurchase our securities and pay corporate expenses depends primarily on the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, The Lincoln National Life Insurance Company, or LNL, may pay dividends to us without prior approval of the Indiana Insurance Commissioner, or the Commissioner, up to a certain threshold, or must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding twelve consecutive months, exceed the statutory limitation. The current Indiana statutory limitation is the greater of 10% of the insurer's contract holders' surplus, as shown on its last annual statement on file with the Commissioner, or the insurer's statutory net gain from operations for the prior calendar year.

In addition, 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 requiring that our insurance subsidiaries hold a specified amount of minimum reserves in order to meet future obligations on their outstanding policies. These regulations specify that the minimum reserves shall be calculated to be sufficient to meet future obligations, after giving consideration to future required premiums to be received, and are based on certain specified mortality and morbidity tables, interest rates and methods of valuation, which are subject to change. In order to meet their claims-paying obligations, our insurance subsidiaries regularly monitor their reserves to ensure we hold sufficient amounts to cover actual or expected contract and claims payments. At times, we may determine that reserves in excess of the minimum may be needed to ensure sufficiency.

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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. For example, in September of 2008, the National Association of Insurance Commissioners, or NAIC, adopted a new statutory reserving standard for variable annuities known as VACARVM, which was effective as of December 31, 2009. This reserving requirement replaced the previous statutory reserving practices for variable annuities with guaranteed benefits, and any change in reserving practices has the potential to increase or decrease statutory reserves from previous levels. Requiring our insurance subsidiaries to hold additional reserves has the potential to constrain their ability to pay dividends to the holding company.

Investments of our insurance subsidiaries support their statutory reserve liabilities. As of March 31, 2010, 68% of these investments were available-for-sale, or AFS, fixed maturity securities of various holdings, types and maturities. These investments are subject to general credit, liquidity, market and interest rate risks. Beginning in 2008 and continuing into 2009, the capital and credit markets experienced an unusually high degree of volatility. As a result, over the last year, the market for fixed income securities has experienced illiquidity, increased price volatility, credit downgrade events and increased expected probability of default. Securities that are less liquid are more difficult to value and may be hard to sell, if desired. Although the capital and credit markets have recently improved, the market disruptions have led to increased impairments of securities in the general accounts of our insurance subsidiaries, thereby reducing contract holders' surplus.

The earnings of our insurance subsidiaries also impact contract holders' surplus. Principal sources of earnings are insurance premiums and fees, annuity considerations and income from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Recent economic conditions have resulted in lower earnings in our insurance subsidiaries. Lower earnings constrain the growth in our insurance subsidiaries' capital, and therefore, can constrain the payment of dividends and advances or repayment of funds to us.

In addition, the amount of surplus that our insurance subsidiaries could pay as dividends is constrained by the amount of surplus they hold to maintain their financial strength ratings, to provide an additional layer of margin for risk protection and for future investment in our businesses. Notwithstanding the foregoing, we believe that our insurance subsidiaries have sufficient liquidity to meet their contract holder obligations and maintain their operations.

The result of the difficult economic and market conditions in reducing the contract holders' surplus of our insurance subsidiaries affected our ability to pay shareholder dividends and to engage in share repurchases. During 2009, we took several actions to reduce the holding company's liquidity needs, including reducing our quarterly common dividend to \$0.01 per share and increasing the capital of our insurance subsidiaries through equity offerings. In the event that current resources do not satisfy our current needs, we may have to seek additional financing, which may not be available or only available with unfavorable terms and conditions. For a further discussion of liquidity, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Review of Consolidated Financial Condition Liquidity and Capital Resources of LNC's Annual Report on Form 10-K for the year ended December 31, 2009 and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Review of Consolidated Financial Condition Liquidity and Capital Resources of LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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The difficulties faced by other financial institutions could adversely affect us.

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. We also may have exposure to these financial institutions in the form of unsecured debt instruments, derivative transactions and/or equity investments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations.

Furthermore, we distribute a significant amount of our insurance, annuity and mutual fund products through large financial institutions. We believe that the mergers of several of these entities, as well as the negative impact of the markets on these entities, has disrupted and may lead to further disruption of their businesses, which may have a negative effect on our production levels.

Our participation in a securities lending program and a reverse repurchase program subjects us to potential liquidity and other risks.

We participate in a securities lending program for our general account whereby fixed income securities are loaned by our agent bank to third parties, primarily major brokerage firms and commercial banks. The borrowers of our securities provide us with collateral, typically in cash, which we separately maintain. We invest such cash collateral in other securities, primarily in commercial paper and money market or other short-term funds. Securities with a fair value of \$425 million were on loan under the program as of March 31, 2010. Securities loaned under such transactions may be sold or repledged by the transferee. We were liable for cash collateral under our control of \$440 million as of March 31, 2010.

We participate in a reverse repurchase program for our general account whereby we sell fixed income securities to third parties, primarily major brokerage firms, with a concurrent agreement to repurchase those same securities at a determined future date. The borrowers of our securities provide us with cash collateral which is typically invested in fixed maturity securities. The fair value of securities pledged under reverse repurchase agreements was \$350 million as of March 31, 2010.

As of March 31, 2010, substantially all of the securities on loan under the program had a fixed term of less than one year and could have been returned to us by the borrowers at that time. Collateral received under the reverse repurchase program cannot be returned prior to maturity; however, market conditions on the repurchase date may limit our ability to enter into new agreements. The return of loaned securities or our inability to enter into new reverse repurchase agreements would require us to return the cash collateral associated with such securities. In addition, in some cases, the maturity of the securities held as invested collateral (i.e., securities that we have purchased with cash received from the third parties) may exceed the term of the related securities and the market value may fall below the amount of cash received as collateral and invested. If we are required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, and we may be

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forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under stressful capital market and economic conditions, such as those conditions we have experienced in the last twelve months, liquidity broadly deteriorates, which may further restrict our ability to sell securities.

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.

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 insurance products, we calculate these reserves based on many assumptions and estimates, including, but not limited to, 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.

As part of our transition plan related to the rescission of a reinsurance treaty covering disability income business, we conducted a reserve study to determine the adequacy of the reserves to cover contract holder obligations during the fourth quarter of 2009. During the fourth quarter of 2009, we increased reserves as a result of our review of the adequacy of reserves supporting this business and wrote off certain receivables related to the rescission that were deemed to be uncollectible, which resulted in a \$33 million unfavorable effect to net income.

The sensitivity of our statutory reserves and surplus established for our variable annuity base contracts and riders to changes in the equity markets will vary depending on the magnitude of the decline. The sensitivity will be affected by the level of account values relative to the level of guaranteed amounts, product design and reinsurance. Statutory reserves for variable annuities depend upon the cumulative equity market impacts on the business in force, and therefore, result in non-linear relationships with respect to the level of equity market performance within any reporting period.

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 amount or the timing of the 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.

We are in the process of completing a conversion of our actuarial valuation systems to a uniform valuation platform. This conversion is a continuation of merger-related activities to harmonize methods and processes and involves an upgrade to a critical platform for our financial reporting and analysis capabilities. As part of this conversion process, we are harmonizing assumptions and methods of calculations that exist between similar blocks of business within our actuarial models. This exercise may result in material one-time gain and loss adjustments to our results of operations and may result in changes to earnings trends.

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Because the equity markets and other factors impact the profitability and expected profitability of many of our products, changes in equity markets and other factors may significantly affect our business and profitability.

The fee revenue that we earn on equity-based variable annuities and VUL insurance policies is based upon account values. Because strong equity markets result in higher account values, strong equity markets positively affect our net income through increased fee revenue. Conversely, a weakening of the equity markets results in lower fee income and may have a material adverse effect on our results of operations and capital resources.

The increased fee revenue resulting from strong equity markets increases the expected gross profits, or EGPs, from variable insurance products as do better than expected lapses, mortality rates and expenses. As a result, higher EGPs may result in lower net amortized costs related to DAC, DSI, VOBA, DFEL and changes in future contract benefits. However, a decrease in the equity markets, as well as worse than expected increases in lapses, mortality rates and expenses, depending upon their significance, may result in higher net amortized costs associated with DAC, DSI, VOBA, DFEL and changes in future contract benefits and may have a material adverse effect on our results of operations and capital resources. For example, in the fourth quarter of 2008, we reset our baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean, or RTM, process. As a result of this and the impact of the volatile capital market conditions on our annuity reserves, we had a cumulative unfavorable prospective unlocking of \$223 million, after-tax. If unfavorable economic conditions return, additional unlocking of our RTM assumptions could be possible in future periods. However, if we were to have unlocked our RTM assumption in the corridor as of December 31, 2009, we would have recorded a favorable prospective unlocking of approximately \$300 million, pre-tax, as a result of improved market conditions in 2009. For further information about our RTM process, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL of LNC's Annual Report on Form 10-K for the year ended December 31, 2009.

Changes in the equity markets, interest rates and/or volatility affect the profitability of our products with guaranteed benefits; therefore, such changes may have a material adverse effect on our business and profitability.

Certain of our variable annuity products include guaranteed benefit riders. These include guaranteed death benefit, or GDB, guaranteed withdrawal benefit, or GWB, and guaranteed income benefit, or GIB, riders. Our GWB, GIB and 4LATER (form of GIB rider) features have elements of both insurance benefits accounted for under the Financial Services Insurance Claim Costs and Liabilities for Future Policy Benefits Subtopic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), referred to as benefit reserves, and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC, referred to as embedded derivative reserves. The benefit reserves resulting from a benefit ratio unlocking component are calculated in a manner consistent with our GDB, as described below. We calculate the value of the embedded derivative reserve and the benefit reserves based on the specific characteristics of each guaranteed living benefit feature. The amount of reserves related to GDB for variable annuities is tied to the difference between the value of the underlying accounts and the GDB, calculated using a benefit ratio approach. The GDB reserves take into account the present value of total expected GDB payments, the present value of total expected GDB

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assessments over the life of the contract, claims paid to date and assessments to date. Reserves for our GIB and certain GWB with lifetime benefits are based on a combination of fair value of the underlying benefit and a benefit ratio approach that is based on the projected future payments in excess of projected future account values. The benefit ratio approach takes into account the present value of total expected GIB payments, the present value of total expected GIB assessments over the life of the contract, claims paid to date and assessments to date. The amount of reserves related to those GWB that do not have lifetime benefits is based on the fair value of the underlying benefit.

Both the level of expected payments and expected total assessments used in calculating the benefit ratio are affected by the equity markets. The liabilities related to fair value are impacted by changes in equity markets, interest rates and volatility. Accordingly, strong equity markets will decrease the amount of reserves that we must carry, and strong equity markets, increases in interest rates and decreases in volatility will generally decrease the reserves calculated using fair value. Conversely, a decrease in the equity markets will increase the expected future payments used in the benefit ratio approach, which has the effect of increasing the amount of reserves. Also, a decrease in the equity market along with a decrease in interest rates and an increase in volatility will generally result in an increase in the reserves calculated using fair value, which are the conditions we have experienced recently.

Increases in reserves would result in a charge to our earnings in the quarter in which the increase occurs. Therefore, we maintain a customized dynamic hedge program that is designed to mitigate the risks associated with income volatility around the change in reserves on guaranteed benefits. However, the hedge positions may not be effective to exactly offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in their values and corresponding changes in the hedge positions, high levels of volatility in the equity markets and derivatives markets, extreme swings in interest rates, contract holder behavior different than expected, a strategic decision to under- or over-hedge in reaction to extreme market conditions or inconsistencies between economic and statutory reserving guidelines and divergence between the performance of the underlying funds and hedging indices. For example, for the quarters ended March 31, 2010 and 2009, we experienced a breakage on our guaranteed living benefits net derivatives results of \$(8) million and \$(65) million, respectively, pre-tax and before the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities. Breakage is defined as the difference between the change in the value of the liabilities, excluding the amount related to the non-performance risk component, and the change in the fair value of the derivatives. Breakage can be positive or negative. The non-performance risk factor is required under the Fair Value Measurements and Disclosures Topic of the FASB ASC, which requires us to consider our own credit standing, which is not hedged, in the valuation of certain of these liabilities. A decrease in our own credit spread could cause the value of these liabilities to increase, resulting in a reduction to net income. Conversely, an increase in our own credit spread could cause the value of these liabilities to decrease, resulting in an increase to net income.

In addition, we remain liable for the guaranteed benefits in the event that derivative counterparties are unable or unwilling to pay, and we are also subject to the risk that the cost of hedging these guaranteed benefits increases, resulting in a reduction to net income. These, individually or collectively, may have a material adverse effect on our net income, financial condition or liquidity.

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Changes in interest rates may cause interest rate spreads to decrease and may result in increased contract withdrawals.

Because the profitability of our fixed annuity and interest-sensitive whole life, UL and fixed portion of defined contribution and VUL insurance business depends in part on interest rate spreads, interest rate fluctuations could negatively affect our profitability. Changes in interest rates may reduce both our profitability from spread businesses and our return on invested capital. Some of our products, principally fixed annuities, interest-sensitive whole life, UL and the fixed portion of VUL insurance, have interest rate guarantees that expose us to the risk that changes in interest rates will reduce our spread, or the difference between the amounts that we are required to pay under the contracts and the amounts we are able to earn on our general account investments intended to support our obligations under the contracts. Declines in our spread or instances where the returns on our general account investments are not enough to support the interest rate guarantees on these products could have a material adverse effect on our businesses or results of operations.

In periods of increasing interest rates, we may not be able to replace the assets in our general account with higher yielding assets needed to fund the higher crediting rates necessary to keep our interest-sensitive products competitive. We therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments than available. Moreover, borrowers may prepay fixed-income securities, commercial mortgages and mortgage-backed securities in our general account in order to borrow at lower market rates, which exacerbates this risk. Because we are entitled to reset the interest rates on our fixed rate annuities only at limited, pre-established intervals, and since many of our contracts have guaranteed minimum interest or crediting rates, our spreads could decrease and potentially become negative. Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as contract holders seek to buy products with perceived higher returns. This process may lead to a flow of cash out of our businesses. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. A sudden demand among consumers to change product types or withdraw funds could lead us to sell assets at a loss to meet the demand for funds.

Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.

Many of our transactions with financial and other institutions, including settling futures positions, specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions, we may be required to make payments to our counterparties related to any decline in the market value of the specified assets.

Losses due to defaults by others could reduce our profitability or negatively affect the value of our investments.

Third parties that owe us money, securities or other assets may not pay or perform their obligations. These parties include the issuers whose securities we hold, borrowers under the

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mortgage loans we make, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, corporate governance issues or other reasons. A further downturn in the U.S. and other economies could result in increased impairments.

Defaults on our mortgage loans and write-downs of mortgage equity may adversely affect our profitability.

Our mortgage loans face default risk and are principally collateralized by commercial properties. Mortgage loans are stated on our balance sheet at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of valuation allowances. We establish valuation allowances for estimated impairments as of the balance sheet date based on information, such as the market value of the underlying real estate securing the loan, any third-party guarantees on the loan balance or any cross collateral agreements and their impact on expected recovery rates. As of March 31, 2010, there were 8 impaired mortgage loans, or less than 1% of total mortgage loans, and 11 commercial mortgage loans that were two or more payments delinquent. The performance of our mortgage loan investments, however, may fluctuate in the future. In addition, some of our mortgage loan investments have balloon payment maturities. An increase in the default rate of our mortgage loan investments could have a material adverse effect on our business, results of operations and financial condition.

Further, any geographic or sector exposure in our mortgage loans may have adverse effects on our investment portfolios and consequently on our consolidated results of operations or financial condition. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are exposed.

For information about our risk of write-downs of mortgage equity, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Investments Mortgage Loans on Real Estate and Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Investments Standby Real Estate Equity Commitments of LNC's Annual Report on Form 10-K for the year ended December 31, 2009 and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Investments Mortgage Loans on Real Estate and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Investments Standby Real Estate Equity Commitments of LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

Our investments are reflected within our consolidated financial statements utilizing different accounting bases, and, accordingly, there may be significant differences between cost and fair value that are not recorded in our consolidated financial statements.

Our principal investments are in fixed maturity and equity securities, mortgage loans on real estate, policy loans, short-term investments, derivative instruments, limited partnerships and other invested assets. The carrying value of such investments is as follows:

Fixed maturity and equity securities are classified as AFS, except for those designated as trading securities, and are reported at their estimated fair value. The difference between the estimated fair value and amortized cost of such securities (i.e., unrealized investment gains and losses) is

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recorded as a separate component of other comprehensive income (loss) , or OCI, net of adjustments to DAC, contract holder related amounts and deferred income taxes;

Fixed maturity and equity securities designated as trading securities, which in certain cases support reinsurance arrangements, are recorded at fair value with subsequent changes in fair value recognized in realized loss. However, offsetting the changes to fair value of the trading securities are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. In other words, the investment results for the trading securities, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. However, there are trading securities associated with the disability income business for which the reinsurance agreement with Swiss Re was rescinded, and therefore, we now retain the gains and losses on those securities;

Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are stated at amortized cost, which approximates fair value;

Mortgage loans on real estate are carried at unpaid principal balances, adjusted for any unamortized premiums or discounts and deferred fees or expenses, net of valuation allowances;

Policy loans are carried at unpaid principal balances;

Real estate joint ventures and other limited partnership interests are carried using the equity method of accounting; and

Other invested assets consist principally of derivatives with positive fair values. Derivatives are carried at fair value with changes in fair value reflected in income from non-qualifying derivatives and derivatives in fair value hedging relationships. Derivatives in cash flow hedging relationships are reflected as a separate component of OCI.

Investments not carried at fair value on our consolidated financial statements, principally, mortgage loans, policy loans and real estate, may have fair values which are substantially higher or lower than the carrying value reflected on our consolidated financial statements. In addition, unrealized losses are not reflected in net income unless we realize the losses by either selling the security at below amortized cost or determine that the decline in fair value is deemed to be other-than-temporary (i.e., impaired). Each of such asset classes is regularly evaluated for impairment under the accounting guidance appropriate to the respective asset class.

Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

Fixed maturity, equity and trading securities and short-term investments, which are reported at fair value on our Consolidated Balance Sheets, represented the majority of our total cash and invested assets. Pursuant to the Fair Value Measurements and Disclosures Topics of the FASB ASC, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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The determination of fair values in the absence of quoted market prices is based on valuation methodologies, securities we deem to be comparable and assumptions deemed appropriate given the circumstances. The fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. Factors considered in estimating fair value include coupon rate, maturity, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of significantly increasing/decreasing or high/low interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, as well as valuation methods which are more sophisticated or require greater estimation, thereby resulting in values which may be less than the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

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 other limited partnership interests. These asset classes represented 23% of the carrying value of our total cash and invested assets as of March 31, 2010. 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 would be able to sell them for the prices at which we have recorded them and we might 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

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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.

In addition, other external factors may cause a drop in value of investments, such as ratings downgrades on asset classes. For example, Congress has proposed legislation to amend the U.S. Bankruptcy Code to permit bankruptcy courts to modify mortgages on primary residences, including an ability to reduce outstanding mortgage balances. Such actions by bankruptcy courts may impact the ratings and valuation of our residential mortgage-backed investment securities.

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 varies 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.

We adopted updates to the Investments Debt and Equity Securities Topic of the FASB ASC for our debt securities effective January 1, 2009. This adoption required that an other-than-temporary impairment, or OTTI, loss be separated into the amount representing the decrease in cash flows expected to be collected, or credit loss, which is recognized in earnings, and the amount related to all other factors, or noncredit loss, which is recognized in OCI. In addition, the requirement for management to assert that it has the intent and ability to hold an impaired security until recovery was replaced by the requirement for management to assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis.

We regularly review our AFS securities for declines in fair value that we determine to be other-than-temporary. For an equity security, if we do not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, we conclude that an OTTI has occurred, and the amortized cost of the equity security is written down to the current fair value, with a corresponding change to realized gain (loss) on our Consolidated Statements of Income (Loss). When assessing our ability and intent to hold the equity security to recovery, we consider, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of decline, a fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer.

For a debt security, if we intend to sell a security or it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an OTTI has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized loss on our Consolidated Statements of Income. If we do not intend to sell a debt security or it is not

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more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to realized loss on our Consolidated Statements of Income (Loss), as this is also deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in OCI to unrealized OTTI on AFS securities on our Consolidated Statements of Stockholders' Equity, as this is considered a noncredit (i.e., recoverable) impairment. Net OTTI recognized in net income (loss) was \$53 million and \$122 million, pre-tax, for the quarters ended March 31, 2010 and 2009, respectively. The portion of OTTI recognized in OCI for the quarters ended March 31, 2010 and 2009 was \$24 million and \$89 million, respectively, 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 operations and financial position.

We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders' equity levels.

As of March 31, 2010, we had approximately \$1.5 billion in principal amount of capital securities outstanding. All of the capital securities contain covenants that require us to make interest payments in accordance with an alternative coupon satisfaction mechanism, or ACSM, if we determine that one of the following triggers exists as of the 30th day prior to an interest payment date, or the determination date :

1. LNL's RBC ratio is less than 175% (based on the most recent annual financial statement filed with the State of Indiana); or
2. (i) The sum of our consolidated net income for the four trailing fiscal quarters ending on the quarter that is two quarters prior to the most recently completed quarter prior to the determination date is zero or negative, and (ii) our consolidated stockholders' equity (excluding accumulated OCI and any increase in stockholders' equity resulting from the issuance of preferred stock during a quarter), or adjusted stockholders' equity, as of (x) the most recently completed quarter and (y) the end of the quarter that is two quarters before the most recently completed quarter, has declined by 10% or more as compared to the quarter that is ten fiscal quarters prior to the last completed quarter, or the benchmark quarter.

The ACSM would generally require us to use commercially reasonable efforts to satisfy our obligation to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the trigger events above no longer existed, and, in the case of test 2 above, our adjusted stockholders' equity amount increased or declined by less than 10% as compared to the adjusted stockholders' equity at the end of the benchmark quarter for each interest payment date as to which interest payment restrictions were imposed by test 2 above.

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If we were required to utilize the ACSM and were successful in selling sufficient shares of common stock or warrants to satisfy the interest payment, we would dilute the current holders of our common stock. Furthermore, while a trigger event is occurring and if we do not pay accrued interest in full, we may not, among other things, pay dividends on or repurchase our capital stock. Our failure to pay interest pursuant to the ACSM will not result in an event of default with respect to the capital securities, nor will a nonpayment of interest, unless it lasts for ten consecutive years, although such breaches may result in monetary damages to the holders of the capital securities.

In recent quarters, we have triggered the net income test as a result of quarterly consolidated net losses. However, recent quarterly consolidated net income and our efforts to raise capital in the form of equity in 2009 resulted in no trigger of the net income test or the overall stockholders equity test looking forward to the quarter ending September 30, 2010.

The calculations of RBC, net income (loss) and adjusted stockholders' equity are subject to adjustments and the capital securities are subject to additional terms and conditions as further described in supplemental indentures filed as exhibits to our Forms 8-K filed on March 13, 2007, May 17, 2006, and April 20, 2006.

A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including 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 reserving requirements, such as VACARVM and principles based reserving, our inability to secure capital market solutions to provide reserve relief, such as issuing letters of credit to support captive reinsurance structures, 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. The RBC ratio is also affected by the product mix of the in-force book of business (i.e., the amount of business without guarantees is not subject to the same level of reserves as the business with guarantees). Most of these factors are outside of our control. Our credit and insurer financial strength ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. The RBC ratio of LNL is an important factor in the determination of the credit and financial strength ratings of LNC and its 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 may increase at a rate greater than the rate of change of the markets. Increases in reserves reduce 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 through public or private equity or debt financing, which may be on terms not as favorable as in the past. Alternatively, if we were not to raise additional capital in such a scenario, 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

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agencies. For more information on risks regarding our ratings, 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* below.

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. In late September and early October of 2008, A.M. Best Co., or A.M. Best, Fitch Ratings, or Fitch, Moody's Investors Service, or Moody's, and Standard & Poor's Ratings Services, or S&P, each revised their outlook for the U.S. life insurance sector from stable to negative. We believe that the rating agencies continue to have the life insurance industry on negative outlook until a sustained recovery in the general economy.

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 by making it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings and by leading to increased withdrawals by current customers seeking companies with higher financial strength ratings. This could lead to a decrease in fees as net 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.

As a result of raising capital of approximately \$2.1 billion in the second and third quarters of 2009, Moody's, S&P, Fitch and A.M. Best affirmed our debt ratings and the financial strength ratings of LNL, Lincoln Life and Annuity Company of New York, or LLANY, and First Penn-Pacific Life Insurance Company. A.M. Best's ratings outlook on LNC and our subsidiaries remains negative. Moody's and S&P both revised their outlooks on LNC and our subsidiaries from negative to stable. Fitch placed the long-term ratings of LNC on watch positive, and updated its outlook on our insurance subsidiaries from negative to stable. All of our ratings and ratings of our principal insurance subsidiaries are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that our principal insurance subsidiaries or we can maintain these ratings. See Part I Item 1. Business Ratings in LNC's Annual Report on Form 10-K for the year ended December 31, 2009, Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Executive Summary Current Market Conditions in LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and Item 8.01 Other Events in LNC's Current Report on Form 8-K filed on June 2, 2010 for a description of our ratings.

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Certain blocks of our insurance business purchased from third-party insurers under indemnity reinsurance agreements may require us to place assets in trust, secure letters of credit or return the business, if the financial strength ratings and/or capital ratios of certain insurance subsidiaries are not maintained at specified levels.

Under certain indemnity reinsurance agreements, one of our insurance subsidiaries, LLANY, provides 100% indemnity reinsurance for the business assumed, however, the third-party insurer, or the cedent, remains primarily liable on the underlying insurance business. Under these types of agreements, as of March 31, 2010, we held statutory reserves of approximately \$3.3 billion. These indemnity reinsurance arrangements require that our subsidiary, as the reinsurer, maintain certain insurer financial strength ratings and capital ratios. If these ratings or capital ratios are not maintained, depending upon the reinsurance agreement, the cedent may recapture the business, or require us to place assets in trust or provide letters of credit at least equal to the relevant statutory reserves. Under the largest indemnity reinsurance arrangement, we held approximately \$2.3 billion of statutory reserves as of March 31, 2010. LLANY must maintain an A.M. Best financial strength rating of at least B+, an S&P financial strength rating of at least BB+ and a Moody's financial strength rating of at least Ba1, as well as maintain an RBC ratio of at least 160% or an S&P capital adequacy ratio of 100%, or the cedent may recapture the business. Under two other arrangements, by which we established approximately \$1 billion of statutory reserves, LLANY must maintain an A.M. Best financial strength rating of at least B++, an S&P financial strength rating of at least BBB- and a Moody's financial strength rating of at least Baa3. One of these arrangements also requires LLANY to maintain an RBC ratio of at least 185% or an S&P capital adequacy ratio of 115%. Each of these arrangements may require LLANY to place assets in trust equal to the relevant statutory reserves. As of December 31, 2009, LLANY's RBC ratio exceeded 600%. See Part I Item 1. Business Ratings in LNC's Annual Report on Form 10-K for the year ended December 31, 2009, and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Executive Summary Current Market Conditions in LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 for a complete description of our ratings.

If the cedent recaptured the business, LLANY would be required to release reserves and transfer assets to the cedent. Such a recapture could adversely impact our future profits. Alternatively, if LLANY established a security trust for the cedent, the ability to transfer assets out of the trust could be severely restricted, thus negatively impacting our liquidity.

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 RBC measurements;

Restrictions of certain transactions between our insurance subsidiaries and their affiliates;

Restrictions on the nature, quality and concentration of investments;

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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.

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 March 31, 2010, 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, Lincoln Financial Network and Lincoln Financial Distributors, as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and the Financial Industry Regulation Authority, or FINRA. LNC, as a savings and loan holding company, and NCLS are subject to regulation and supervision by the Office of Thrift Supervision, or OTS. As a savings and loan holding company, we are also subject to the requirement that our activities be financially-related activities as defined by federal law (which includes insurance activities). 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.

Recently, there has been an increase in potential federal initiatives that would affect the insurance industry. In January 2010, the White House proposed as a part of its budget proposal a new financial crisis responsibility fee on certain financial institutions as a means to recoup any shortfall in revenues resulting from the TARP, so that the program does not add to the federal budget deficit. As proposed, the fee would apply to financial institutions, including bank holding companies, thrift holding companies, insured depositories, and insurance companies that own one of these entities, with over \$50 billion in assets, regardless of whether the firm participated

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in the TARP. The fee as proposed is expected to be an assessment of 15 basis points against a calculated covered liabilities amount and would be in place for a minimum of 10 years. Details as to the precise calculation of covered liabilities are still unclear. Further, legislation implementing this fee will need to be introduced and passed by Congress before this tax would take effect. In December 2009, the House passed H.R. 4173,

The Wall Street Reform and Consumer Protection Act of 2009, a wide-ranging bill that includes a number of reforms. The bill includes, among other things, a new harmonized fiduciary standard for broker-dealers and investment advisers, the creation of the Consumer Financial Protection Agency, the creation of a pre-funded resolution trust to cover the costs of winding down certain failing institutions, the creation of the Federal Insurance Office within the U.S. Treasury and provisions relating to executive compensation. The bill would require financial institutions, including insurance companies, to contribute funds to the resolution trust. The bill also eliminates the OTS and reallocates the supervisory and regulatory authority (i) over federally chartered thrifts to the Office of the Comptroller of the Currency and (ii) over thrift holding companies to the Federal Reserve. If this provision of the bill is adopted, we and NCLS will each have a new regulator and may be subject to additional regulations.

In the Senate, similar legislation was passed by the full Senate on May 20, 2010. H.R. 4173 was the vehicle for incorporating the provisions of S. 3217, the Senate's substitute bill. The Senate-passed bill contains many similar provisions that are included in the House-passed version of H.R. 4173. However, because of differences in the House and Senate-passed versions of the bill, it must be reconciled in conference between House and Senate negotiators. For instance, the Senate-passed bill currently does not include a provision to create a pre-funded resolution trust, nor does it have a harmonized fiduciary standard for broker-dealers and investment advisers. In addition, the Senate-passed bill contains restrictions on proprietary trading activities of all of the subsidiaries and affiliates within a holding company system that contains a depository institution. These and other differences must be reconciled before a final bill can be enacted into law. The Conference Committee began negotiations to reconcile the Senate and House-passed bills on June 10, 2010. It is anticipated that Congress will complete work on this regulatory reform package prior to the July 4th recess, and that the bill will be signed into law by President Obama. The ultimate impact of any of these federal initiatives on our results of operations, liquidity or capital resources is currently indeterminable.

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.

Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations.

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX or XXX, requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and UL policies with secondary guarantees. In addition, Actuarial Guideline 38, or AG38, clarifies the application of XXX with

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respect to certain UL insurance policies with secondary guarantees. Virtually all of our newly issued term and the great majority of our newly issued UL insurance products are now affected by XXX and AG38.

As a result of this regulation, we have established higher statutory reserves for term and UL insurance products and changed our premium rates for term life insurance products. We also have implemented reinsurance and capital management actions to mitigate the capital impact of XXX and AG38, including the use of letters of credit to support the reinsurance provided by captive reinsurance subsidiaries. In addition, although formal details have not been provided, we anticipate the rating agencies may require a portion of these letters of credit to be included in our leverage calculations, which would pressure our leverage ratios and potentially our ratings. Therefore, we cannot provide assurance that there will not be regulatory, rating agency or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase statutory reserves or incur higher operating and/or tax costs. See Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Insurance Solutions Insurance Solutions Life Insurance in LNC's Annual Report on Form 10-K for the year ended December 31, 2009 and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Insurance Solutions Insurance Solutions Life Insurance in LNC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 for a further discussion of our capital management in connection with XXX.

In light of the current downturn in the credit markets and the increased spreads on asset-backed debt securities, we also cannot provide assurance that we will be able to continue to implement actions to mitigate the impact of XXX or AG38 on future sales of term and UL insurance products. If we are unable to continue to implement those actions, we may be required to increase statutory reserves, incur higher operating costs and lower returns on products sold than we currently anticipate or reduce our sales of these products. We also may have to implement measures that may be disruptive to our business. For example, because term and UL insurance are particularly price-sensitive products, any increase in premiums charged on these products in order to compensate us for the increased statutory reserve requirements or higher costs of reinsurance may result in a significant loss of volume and adversely affect our life insurance operations.

Changes in accounting standards issued by the FASB 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 that are incorporated into the FASB ASC. 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.

For example, the Emerging Issues Task Force of the FASB has issued an exposure draft on DAC which provides changes to existing guidance as to the types of costs that insurance companies may capitalize. Until the final guidance is issued, the impact to our consolidated financial position and results of operations is unknown. In addition, the SEC has proposed that large accelerated filers in the U.S. be required to report financial results in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board rather than GAAP. As currently proposed, the earliest this would become

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effective would begin with a company's fiscal year 2014 Annual Report on Form 10-K. The 2014 Form 10-K would likely include audited IFRS financial statements for the transitional year, as well as the two preceding fiscal years. Thus, an issuer adopting IFRS in 2014 would need to file audited IFRS financial statements for fiscal years 2012, 2013, and 2014 in its Form 10-K for the fiscal year ended 2014. Despite the movement toward convergence of GAAP and IFRS, IFRS will be a complete change to our accounting and reporting and converting to IFRS will impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure. As convergence of GAAP and IFRS continues, it could result in significant changes in GAAP that would be implemented whether or not a transition to IFRS actually occurs. The changes to GAAP and ultimate conversion to IFRS will likely affect how we manage our business, as it will likely affect other business processes such as design of compensation plans, product design, etc.

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

We are, and in the future may be, subject to legal actions in the ordinary course of our insurance 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 Part II Item 8. Financial Statements and Supplementary Data Note 14 in our Annual Report on Form 10-K for the year ended December 31, 2009, and Part I Item 1. Financial Statements Note 9 in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

Changes in U.S. federal income tax law could increase our tax costs and make the products that we sell less desirable.

Changes to the Internal Revenue Code, administrative rulings or court decisions could increase our effective tax rate and lower our net income. For example, on February 1, 2010, the U.S. Treasury released the General Explanations of the Administration's Fiscal Year 2011 Revenue Proposals including proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. The statutory changes contemplated by the Administration's revenue proposals would, if enacted into law, change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, that are eligible for the dividend received deduction. The dividend received deduction reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and expected amount determined using the federal statutory tax rate of 35%. Our income tax provision for the year ended December 31, 2009 included a separate account dividend received deduction benefit of \$77 million. From time to time, the Internal Revenue Service has challenged the applicability of the dividend received deduction. In addition, the Administration's proposals would affect the treatment of corporate owned UL and VUL, or COLI, policies by limiting the availability of certain interest deductions

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for companies that purchase those policies. If proposals of this type were enacted, our sale of COLI, variable annuities and variable life products could be adversely affected and our actual tax expense could increase, reducing earnings.

Our enterprise 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 enterprise 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.

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, 2009, we ceded \$342.6 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 March 31, 2010, we had \$6.5 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, \$3.1 billion related 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 \$1.9 billion as of March 31, 2010. As a result of Swiss Re's S&P financial strength rating dropping below AA-, Swiss Re was required to fund an additional trust to support this business of approximately \$1.5 billion as of March 31, 2010, which was established during the fourth quarter of 2009. Furthermore, approximately \$1.2 billion of the Swiss Re treaties are funds withheld structures where we have a right of offset on assets backing the reinsurance receivables.

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.

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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, a natural disaster 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 severity of a future pandemic cannot be predicted. Additionally, the impact of climate change could cause changes in weather patterns, resulting in more severe and more frequent natural disasters such as forest fires, hurricanes, tornados, floods and storm surges. 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, natural disasters 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 or applicable reinsurance 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.

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Competition for our employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and retain key people. Intense competition exists for the key employees with demonstrated ability, and we may be unable to hire or retain such employees, particularly in light of compensation restrictions currently applicable to us in connection with our participation in the TARP CPP. The unexpected loss of services of one or more of our key personnel could have a material adverse effect on our operations due to their skills, knowledge of our business, their years of industry experience and the potential difficulty of promptly finding qualified replacement employees. 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 key employees, including financial advisors, wholesalers 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.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. Additionally, complex legal and factual determinations and evolving laws and court interpretations make the scope of protection afforded our intellectual property uncertain, particularly in relation to our patents. While we believe our patents provide us with a competitive advantage, we cannot be certain that any issued patents will be interpreted with sufficient breadth to offer meaningful protection. In addition, our issued patents may be successfully challenged, invalidated, circumvented or found unenforceable so that our patent rights would not create an effective competitive barrier. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon another party's intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could

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be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

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 and 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.

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Use of proceeds

We estimate that the net proceeds from the sale of _____ shares of our common stock in this offering, after deducting underwriting discounts and estimated offering expenses payable by us, will be approximately \$319 million (or approximately \$367 million if the underwriters exercise in full their option to purchase additional shares of our common stock).

We intend to use the net proceeds from this offering of our common stock, together with the net proceeds from the \$250 million portion of our planned note offering and available funds, to repurchase in full, once we have received approval of the U.S. Treasury to do so, the Series B preferred stock held by the U.S. Treasury pursuant to our participation in the TARP CPP. Pending such use we will invest the proceeds in short-term, investment grade investments. If the U.S. Treasury does not approve our request to repurchase the Series B preferred stock, we will use the net proceeds of this offering for general corporate purposes. In addition, we expect to use the remaining net proceeds, if any, from our planned note offering as part of a long-term financing solution supporting the universal life reserves of our insurance subsidiaries.

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Table of Contents**Common stock price range and dividends**

Our common stock trades on the New York and Chicago Stock Exchanges under the symbol LNC. As of June 3, 2010, there were 302,507,880 shares of our common stock issued and outstanding. As of June 3, 2010, there were approximately 11,024 shareholders of record of our common stock. The dividend on our common stock is declared each quarter by our board of directors if we are eligible to pay dividends and our board of directors determines that we will pay dividends. In determining dividends, our board takes into consideration items such as our financial condition, including current and expected earnings, projected cash flows and anticipated financing needs. For additional information regarding restrictions on our ability to pay dividends, see Risk factors Risk factors relating to our common stock. Holders of our common stock are subject to restrictions on the payment of dividends and Risk factors relating to our business. We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders' equity levels in this prospectus supplement, Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Review of Consolidated Financial Condition Liquidity and Capital Resources and Item 8. Financial Statements and Supplementary Data Note 21 in our Annual Report on Form 10-K for the year ended December 31, 2009, and Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Review of Consolidated Financial Condition in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, which are incorporated herein by reference.

As a result of our participation in the TARP CPP, prior to July 10, 2012 we are prohibited, without the consent of the U.S. Treasury, from declaring or paying any dividend or making any distribution on our common stock, other than regular quarterly cash dividends not exceeding \$0.01 per share of common stock and dividends payable only in shares of our common stock, unless prior to July 10, 2012 all of the outstanding Series B preferred stock has been repurchased in whole or the U.S. Treasury has transferred all of that preferred stock to third parties. In addition, we are prohibited from paying dividends on our common stock without paying dividends on our outstanding preferred stock in full. We intend to use the net proceeds from this offering, together with the net proceeds from the \$250 million portion of our planned note offering and available funds, to repurchase all outstanding shares of the Series B preferred stock, subject to the approval of the U.S. Treasury. See Summary Repurchase of our Series B Fixed Rate Cumulative Perpetual Preferred Stock.

The following table presents the high and low sales prices for our common stock on the New York Stock Exchange during the periods indicated and the dividends declared per share during such periods:

	Price range		Cash dividend per share
	High	Low	
2010			
Second Quarter (through June 11, 2010)	\$ 33.55	\$ 23.86	\$ 0.01
First Quarter	30.74	22.52	0.01
2009			
Fourth Quarter	\$ 28.10	\$ 21.99	\$ 0.01
Third Quarter	27.82	14.34	0.01
Second Quarter	19.99	5.52	0.01
First Quarter	25.59	4.90	0.01
2008			
Fourth Quarter	\$ 45.50	\$ 4.76	\$ 0.21
Third Quarter	59.99	39.83	0.415
Second Quarter	56.80	45.18	0.415
First Quarter	58.11	45.50	0.415

The last reported sale price of our common stock on June 11, 2010, as reported by the New York Stock Exchange, was \$26.36 per share.

Table of Contents**Capitalization**

The following table sets forth our consolidated capitalization as of March 31, 2010:

on an actual basis;

on an as adjusted basis to give effect to the receipt of estimated net proceeds of approximately \$319 million from the sale of our common stock in this offering (assuming no exercise of the underwriters' option to purchase additional shares); and

on a further as adjusted basis to give effect to (i) the receipt of estimated net proceeds of approximately \$319 million from the sale of our common stock in this offering (assuming no exercise of the underwriters' option to purchase additional shares); (ii) our planned note offering, assuming we issue notes in an aggregate principal amount of \$250 million in the planned note offering; and (iii) the use of the net proceeds from these offerings.

The completion of this offering is not conditioned on the completion of the planned note offering, and the completion of the planned note offering is not conditioned on the completion of this offering. Furthermore, there can be no assurance that the U.S. Treasury will approve our repurchase of the Series B preferred stock.

The following data is qualified in its entirety by, and should be read in conjunction with, our unaudited consolidated financial statements and notes thereto incorporated in this prospectus supplement and the accompanying base prospectus by reference.

		As of March 31, 2010		
			As further adjusted for the planned note offering and the use of net proceeds(2)	
		Actual	As adjusted for this offering(1)	
(In millions)				
Short-term debt				
Commercial paper	\$	100	\$ 100	\$ 100
Other short-term debt		1	1	1
Total short-term debt	\$	101	\$ 101	\$ 101
Long-term debt, excluding current portion(3)				
Senior notes:				
Senior notes to be offered	\$		\$	\$ 250

6.2% notes, due 2011

ht:16.75px;width:93px;
text-align:center;padding: 0in 0in
0in 0in;'> 2Q09

3Q09

1,350

350

1,000

272

713

985

1) Before impact from movements
in spreads on own debt

2) Excludes litigation charges of
CHF 383 m in 2Q09, corporation
settlement, litigation reserve

releases of CHF 333 m in 4Q08
and CHF 73 m in 3Q08, and
litigation charges of CHF 47m in
3Q09

2Q09

4Q08

1,450

4Q08

1Q09

1,162

347

815

Declined vs. 3Q08 due to cost
reduction measures
and FX impact; partly offset by
higher legal, consulting
and service fees in line with

higher deal activity and
business exit costs

Increase vs. 2Q09 primarily due to
incremental IT
investment costs and legal,
consulting and service
fees in part relating to the exit
businesses

989

2,746

696

293

1,106

805

301

2,129

Commission expenses

G&A expenses

2)

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1)

Positive medium-term outlook for
market share and/or market
environment in many key
businesses

Relative revenue contribution
from major business lines

Relative revenue
contribution in 9M09

9M09 market environment

Credit
Suisse
market
share

Strong

Revenue growth potential
from increasing market share

Revenue growth potential
from improving environment

Some risk of revenue
reduction from normalizing
environment

Worse than historic levels

Better than historic levels

Upside
potential

Prime
services

Cash
equities

RMBS trading

Emerging
markets

Rates

Equity capital
markets

Equity
derivatives

M&A

FX

Commodities

General direction of
movement of business within
same-colored segments

Note: Excludes 1Q09 rebound
revenues.

Leveraged
finance

Investment
grade

Third Quarter Results 2009

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Constructive medium-term
outlook for overall revenue base

Investment Bank 9M09 revenues
(in CHF bn)

Revenue growth potential
from increasing market share

Revenue growth potential
from improving environment

Some risk of revenue
reduction from normalizing
environment

More
sustainable
revenues with
good growth
prospects

Greatest risk
of revenue
reduction

9M09
reported
revenues

1) 9M09 reported revenues from
all businesses, excluding rebound
revenue of CHF 1.3 bn in 1Q09

9M09
adjusted
revenues

16.2

4.7

9.8

(3.6)

5.3

19.8

9M09 wind-
down losses
and other

Potential
normalization of
environment

Potential from
improved
environment

Potential from
higher market
share

Third Quarter Results 2009

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1)

(529)

(490)

311

(124)

55

Asset Management with continued progress

Closed transaction with Aberdeen, recording **gain of CHF 207 m**

Asset inflows into targeted growth areas

Assets under management up CHF 17 bn, or 4.2%, to CHF 428 bn

Business positioned well to **benefit from normalizing market environment**

Stable gross margin, with asset management **fees up 5% vs. 2Q09**

Pre-tax income

CHF m

9M08

9M09

1Q09

2Q09

3Q09

Total gains/(losses)

(584)	(256)	
(408)	13	139

1) Including gain on sale of business of CHF 21 m and CHF 207 m in 2Q09 and 3Q09, respectively

2) On securities purchased from our money market funds and investment-related gains/(losses)

3) Before total gains/(losses) and gains on sale of business in 2Q09 and 3Q09

Gross margin

39	40	
40	39	40

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1)

2)

3)

Securities purchased from our money market funds

42

Investment-related

97

Total gains/(losses)

139

(2.7)

Asset Management with good
inflows in targeted growth
businesses

Assets under management

CHF bn

Asset
Management
Division

Multi-asset
class solutions
(MACS)

Traditional
strategies and
other

Alternative
investment
strategies (AI)

Net new assets

+1.4

(1.4)

+3.9

Gross margin

Before total gains/(losses) and
gain on sale in 9M09

+3.9

CHF bn

428

104

176

148

40

37

28

54

(3.7)

+1.0

(2.0)

3Q09

9M09

CHF (3.4) bn in 3Q and CHF (5.0)
bn in 9M
from US money market business

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Continued strengthening of
industry leading capital position

4Q08

1Q09

3Q09

Basel 2 risk-weighted assets (in
CHF bn) and capital ratios (in %)

4Q07

Basel 2 tier 1 ratio of **16.4 %**,
up 310 basis points year-to-date

Core tier 1 ratio of **11.3%**

Continue to **accrue towards a
normalized
dividend**

Risk-weighted assets **further
decreased
5%** in 3Q09

10.0

13.3

14.1

257

261

324

15.5

235

2Q09

(31)%

(5)%

16.4

222

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Maintained strong funding structure

1,064

1,064

Assets

3Q09

Capital & liabilities

3Q09

Reverse 263

repo

Trading 353

assets

Loans 234

Other 165

Repo 221

Trading liab.149

Short-term 56

Long-term debt

Deposits 280

Capital & Other 192

120%

coverage

Asset and liabilities by category
(period-end in CHF bn)

Strong balance sheet structure maintained

Stable and low cost deposit base a
**key funding
advantage**

Regulatory leverage ratio
increased to 4.1%

Expect total **assets to increase by
less than
CHF 60 bn** from changes to
consolidation rules
for VIEs under SFAS 167

Cash 49

1) Includes due from/to banks

VIE = Variable Interest Entities

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1)

1)

166

**Third quarter 2009 results
detail**

Renato Fassbind, Chief
Financial Officer

Introduction

Brady W. Dougan, Chief
Executive Officer

Summary

Brady W. Dougan, Chief
Executive Officer

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Evolving industry landscape

Regulatory
focus areas

Leverage

Liquidity

Capital

Compensation
structure

Credit Suisse **well positioned**

Strategy adjusted early:
client focused and capital efficient
business model
with significantly reduced risks

Maintained exceptionally strong
capital position

Strong funding and liquidity

Developed state of the art
compensation structure
consistent with G-20 principles

Third Quarter Results 2009

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Differentiated strategic direction:
**client focused and capital
efficient**

Strategy implementation

**Counter-cyclical investments in
PB**

Repositioned IB to **client
businesses**

**AM focused on core
competencies**

**Delivering
strong results**

**Net income
of CHF 2.4 bn in 3Q09
and CHF 5.9 bn in 9M09**

**Return on equity of
25.1% in 3Q09
and 21.8% in 9M09**

**Strong net asset inflows of
CHF 17 bn in 3Q09
and CHF 32 bn in 9M09**

PB with attractive **industry
opportunity** and significant
operating leverage

IB with more **sustainable
revenue pools, many with
potential for growth**

Active risk management

Aggressive **risk reduction** and
remaining **risks well diversified**

Competitive strengths

Consistency in integrated bank
strategy, leadership and client
coverage resulting in **market
share
gains**

**Well positioned to
face changes** in industry
regulation

Capital strength provides
flexibility **to grow the
franchise** and deliver
**attractive returns to
shareholders**

PB = Private Banking IB =
Investment Banking AM = Asset
Management

Looking ahead

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Appendix

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Reconciliation from underlying to
reported results

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Collaboration revenues

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Repositioned Investment Bank

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Client market share momentum in
the Investment Bank

31

Investment Banking market and
margin trends

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Commercial mortgage exposures
detail

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Loan portfolio characteristics

35 to 36

Reconciliation from reported to
underlying results 3Q09

3Q09
reported

Note: numbers may not add to
total due to rounding

CHF bn

2Q09
underlying

Impact from
tightening of
spreads on
own debt

Legal
provisions

1Q09
underlying

3Q09
underlying

Discrete
tax
benefit

Gain on
sale of
business

Underlying return on
equity of 23.0% in 9M09

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Net revenues

8.9

0.1

9.0

9.8

8.9

Prov. for credit losses

(0.1)

(0.1)

(0.3)

(0.2)

Total oper. expenses

(6.2)

0.3

(5.9)

(6.4)

(6.3)

Pre-tax income

2.6

0.1

0.3

3.0

3.1

2.4

Income taxes

(0.4)

0.0

(0.1)

(0.2)

(0.7)

(0.6)

(0.8)

Income from discontinued operations

0.2

(0.2)

0.0

0.0

Net income

2.4

0.1

0.2

(0.2)

(0.2)

2.3

2.5

1.5

Return on equity

25.1%

24.2%

27.4%

17.1%

Reconciliation from reported to
underlying results 2Q09, 1Q09

Note: numbers may not add to
total due to rounding

**2Q09
reported**

**2Q09
under-
lying**

Impact from
the tightening
of spreads on
own debt

Charges
related to
Huntsman
settlement

Discrete
tax
benefit

**1Q09
under-
lying**

**1Q09
reported**

Impact from
the widening
of spreads on
own debt

CHF bn

Third Quarter Results 2009

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Net revenues

8.6

1.1

0.1

9.8

9.6

(0.7)

8.9

Prov. for credit losses

(0.3)

(0.3)

(0.2)

(0.2)

Total oper. expenses

(6.7)

0.3

(6.4)

(6.3)

(6.3)

Pre-tax income

1.6

1.1

0.5

3.1

3.1

(0.7)

2.4

Income taxes

(0.0)

(0.1)

(0.2)

(0.4)

(0.6)

(1.0)

0.2

(0.8)

Net income

1.6

1.0

0.3

(0.4)

2.5

2.0

(0.5)

1.5

Return on equity

17.5%

27.2%

22.6%

17.4%

Collaboration revenues

Collaboration revenues
remained resilient reflecting
the strength of the integrated
bank model

Total collaboration revenues
targeted to reach
CHF 10 bn in 2012

CHF bn

2006

2007

2008

4.9

5.9

5.2

9M09

3.6

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Repositioned businesses

Exit businesses

Emerging Markets maintain leading business but with more limited risk/credit provision

US Leveraged Finance maintain leading business but focus on smaller/quicker to market deals

Corporate Lending improved alignment of lending with business and ability to hedge

Cash equities

Electronic trading

Prime services

Equity derivatives focus on flow and corporate trades

December 2008: Realignment of the Investment Bank

Equity Trading focus on quantitative and liquid strategies

Convertibles focus on client flow

Highly structured derivatives

Illiquid principal trading

Equities

Fixed Income

Advisory

Develop existing strong market positions

Maintain competitive advantage
but reduce risk and volatility

Release capital and resources;
reduce volatility

Global Rates

Currencies (FX)

High Grade Credit / DCM

US RMBS secondary trading

Commodities trading (joint
venture)

Strategic advisory (M&A) and
capital markets origination

Mortgage origination and CDO

Non-US leveraged finance
trading

Non-US RMBS

Highly structured derivatives

Power & emission trading

Origination of slow to market,
capital-intensive financing
transactions

Key client businesses

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#1 equity trading in US cash products (*McLagan*); #1 in S&P 500 equity trading (*Bloomberg*)

#1 RMBS pass-through trading (*Tradeweb*)

Significant increase in convertibles underwriting market share in the Americas in 3Q09, leading to an increase in global market share (*Dealogic*)

#1 European convertible trading (*Greenwich Associates*)

#1 LSE Order Book (*LSE*)

#1 FTSE 100, #1 Eurostoxx 600 (*Markit MSA*)

#2 in EMEA Investment Banking wallet share (*Dealogic*)

Increase in EMEA market share in 3Q09, leading to increase in Global ECM market share (*Dealogic*)

#1 APAC M&A (*Thomson*)

Significant increase in convertibles underwriting market share (*Dealogic*)

Emerging Markets Bond House of the Year (*IFR*)

#1 Latin America M&A market share (*Thomson*)

#1 Middle East and Africa Equity underwriting wallet share (*Dealogic*)

Best M&A House in the Middle East (*Euromoney*)

Client market share momentum
across products and regions

Best bank in Switzerland
(*Euromoney*)

Best Emerging Markets
M&A House (*Euromoney*)

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Equity

Fixed
income

Invest-
ment
banking

Cash equities

Electronic trading

Prime services

Global rates

Foreign exchange

US RMBS trading

High grade trading

M&A

High yield underwriting

Equity underwriting

Product

Investment grade underwriting

Credit Suisse margin trends across
selected products
in Investment Banking

3Q09 vs.
2Q09

2Q09 vs.
1Q09

1Q09 vs.
4Q08

Margin trends

9M09 vs.
4Q08

Cash equities

Electronic trading

Prime services

Global rates

Foreign exchange

US RMBS trading

High grade trading

M&A

High yield underwriting

Equity underwriting

Product

Investment grade underwriting

Credit Suisse market share trends
across selected products
in Investment Banking

3Q09 vs.
2Q09

2Q09 vs.
1Q09

1Q09 vs.
4Q08

Market share trends

9M09 vs.
4Q08

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Equity

Fixed
income

Invest-
ment
banking

6.6

Commercial mortgage exposure
reduction in Investment Banking

1) This price represents the
average mark on loans and bonds
combined

36

26

(90)%

19

15

13

9

3Q07

4Q07

1Q08

2Q08

3Q08

4Q08

1Q09

Commercial mortgages (CHF bn)

Exposure by region

3Q09 exposure reduction mainly
due to
bulk sale of European portfolio

Average price of remaining
positions
is 48% (from 56% in 2Q09)

Positions are fair valued;
no reclassifications to accrual

book

Other

8%

Asia

18%

Germany

27%

US

23%

UK

3%

Other

Continental
Europe

29%

Office
32%

Retail

11%

Hotel

25%

Multi-
family

24%

Exposure by loan type

2Q09

7

3.6

3Q09

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1)

Investment Banking loan book

Developed market lending

Corporate loan portfolio 78% is investment grade, and is **mostly (87%) accounted for on a fair value basis**

Fair value **is a forward looking** view which balances accounting risks, matching treatment of loans and hedges

Loans are carried at an **average mark of approx. 98%** with average mark of **93% in non-investment grade portfolio**

Continuing **good performance** of individual credits: limited specific provisions during the quarter

Unfunded commitments

Loans

Hedges

CHF bn

Emerging market lending

Well diversified by name and evenly spread between EMEA, Americas and Asia and **approx. 50% accounted for on a fair value basis**

Emerging market loans are carried at an **average mark of approx. 92%**

No significant provisions during the quarter

Note: Average mark data is net of fair value discounts and credit provisions

46

14

(19)

Loans

Hedges

CHF bn

15

(10)

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Wealth Management Clients: CHF
125 bn

Securities-backed lending (CHF
31 bn) with conservative haircuts

Residential mortgages (CHF 88
bn) underwriting based on
conservative client income and
loan-to-value requirements

Switzerland avoided real estate
bubble seen in other markets

Price falls discernible in
peripheral and structurally weaker
regions, not
yet in attractive regions (e.g.,
Zurich, Lac Léman); stable
outlook

Segment not expected to be
significantly affected by economic
downturn

Corporate & Institutional Clients:
CHF 51 bn

Sound credit quality with
relatively low concentrations

Over 70% collateralized by
mortgages and securities

Counterparties are Swiss
corporates incl. real-estate
industry

Negative outlook for commercial
property (office space/retail)

Corporate client segment will be
most affected by an economic
downturn, but no significant
deterioration discernible yet

Impact highly dependent on the
severity and length of downturn

Private Banking loan book

BB+ to BB 6%

BB- and below 2%

Portfolio ratings by
transaction rating

LTV = Loan to value

CHF 176 bn

Total loan book of CHF 176 bn;
85% collateralized and primarily
on accrual accounting

BBB

29%

AAA to A

63%

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREDIT SUISSE
GROUP AG and
CREDIT SUISSE
(Registrant)

By: /s/ Romeo Cerutti
(Signature)*
General Counsel
Credit Suisse Group
AG and Credit Suisse

Date: October
22, 2009

/s/ Charles Naylor
Head of Corporate
Communications
Credit Suisse Group
AG and Credit Suisse

*Print the
name and title
under the
signature of
the signing
officer.