

LINCOLN NATIONAL CORP  
Form DEF 14A  
April 08, 2005

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Lincoln National Corporation**

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(Name of Registrant as Specified In Its Charter)

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**PHILADELPHIA, PENNSYLVANIA**

April 8, 2005

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Lincoln National Corporation scheduled for Thursday, May 12, 2005, at 10:00 a.m., local time, at Delaware Investments, Inc., Second Floor Auditorium, Two Commerce Square, 2001 Market Street, Philadelphia, Pennsylvania. Our Board of Directors and management look forward to greeting you.

The enclosed Notice of Meeting and Proxy Statement describe the matters to be acted upon at the Annual Meeting of Shareholders. Please review these documents carefully.

It is important that you vote your shares of our stock, either in person or by proxy. To assist you in voting your shares, we now offer, in addition to voting through the use of a proxy card, voting via telephone and over the Internet. If you are unable to attend, please sign, date and mail the enclosed proxy card in the postage-paid envelope provided, or vote your shares in any other manner described in the enclosed proxy statement.

On behalf of the Board of Directors, thank you for your continued support.

Sincerely,

**Jon A. Boscia**  
**Chairman and Chief Executive Officer**

**LINCOLN NATIONAL CORPORATION**  
**PHILADELPHIA, PENNSYLVANIA**

**NOTICE OF**  
**ANNUAL MEETING OF SHAREHOLDERS**

April 8, 2005

The Annual Meeting of Shareholders of LINCOLN NATIONAL CORPORATION will be held on Thursday, May 12, 2005, at 10:00 a.m., local time, at Delaware Investments, Inc., Second Floor Auditorium, Two Commerce Square, 2001 Market Street, Philadelphia, Pennsylvania.

The items of business are:

1. to elect three directors for three-year terms expiring in 2008;
2. to ratify the appointment of Ernst & Young LLP, as independent registered public accounting firm for 2005;
3. to approve the Lincoln National Corporation Amended and Restated Incentive Compensation Plan, and
4. to consider and act upon such other matters as may properly come before the meeting.

You have the right to receive this notice and vote at the Annual Meeting of Shareholders if you were a shareholder of record at the close of business on March 7, 2005. Please remember that your shares cannot be voted unless you cast your votes by one of the following methods: (1) sign and return a proxy card; (2) call the 800 toll-free number listed on the proxy card; (3) vote via the Internet as indicated on the proxy card; (4) vote in person at the Annual Meeting; or (5) make other arrangements to vote your shares.

For the Board of Directors,

**C. Suzanne Womack**  
**Secretary**

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# LINCOLN NATIONAL CORPORATION

1500 MARKET STREET, SUITE 3900

CENTRE SQUARE WEST

PHILADELPHIA, PENNSYLVANIA 19102

## PROXY STATEMENT

Annual Meeting of Shareholders

May 12, 2005

Our Board of Directors is soliciting proxies in connection with the proposals to be voted on at the Annual Meeting of Shareholders scheduled for May 12, 2005 (the Annual Meeting). The Annual Meeting will be held at Delaware Investments, Inc., Second Floor Auditorium, Two Commerce Square, 2001 Market Street, Philadelphia, Pennsylvania. The matters to be voted upon are set forth in the enclosed Notice of Annual Meeting of Shareholders (the Notice). We are first mailing this Proxy Statement and enclosed proxy to our shareholders on or about April 8, 2005.

We encourage you to vote your shares, either by voting in person at the Annual Meeting or by granting a proxy (*i.e.*, authorizing someone to vote your shares). If you execute the attached proxy card, the individuals designated on that card (Jon A. Boscia, Jill S. Ruckelshaus, and C. Suzanne Womack) will vote your shares according to your instructions. If any matter other than Items 1, 2 and 3 listed in the Notice is presented at the Annual Meeting, the designated individuals will, to the extent permissible, vote all proxies in the manner they perceive to be in our best interests.

To assist you in deciding how to vote, this Proxy Statement includes narrative information about us, our officers and directors, nominees for director, and related matters. In addition, a performance graph showing the performance over a five-year period is included on page 25. We have included tabular information regarding security ownership by our 5% beneficial owners and our directors and officers as well as the compensation of our chief executive officer and the four most highly compensated Executive Officers other than the chief executive officer, all of which is set forth in Tables A through G (beginning on page 46).

Whenever we refer in this Proxy Statement to the Annual Meeting, we are also referring to any meeting that results from an adjournment of the Annual Meeting.

## SOLICITATION OF PROXIES

### Introduction

The attached proxy card allows you to instruct the designated individuals how to vote your shares. You may vote in favor of, against, or abstain from voting on Items 2 and 3. With respect to Item 1 (the election of directors), you may vote in favor of, or withhold your votes from, all or one or more particular nominees.

If you sign a proxy card and deliver it to us, but then want to change your vote, you may revoke your proxy at any time prior to the Annual Meeting by sending our Corporate Secretary a written revocation or a new proxy, or by attending the Annual Meeting and voting your shares in person.

### Who May Solicit Proxies

Our directors, officers and employees as well as Georgeson Shareholder may solicit proxies on behalf of the Board via mail, telephone, fax, and personal contact.

### Costs Of Soliciting Proxies

We will pay the cost of soliciting proxies. Our directors, officers and employees will receive no additional compensation for soliciting proxies. We will reimburse certain brokerage firms, banks, custodians and other fiduciaries for the reasonable mailing and other expenses they incur in forwarding proxy materials to the beneficial owners of stock that those brokerage firms, banks, custodians and fiduciaries hold of record. As noted above, we have retained Georgeson Shareholder to solicit proxies. We will pay Georgeson Shareholder a fee of \$8,500, plus reasonable expenses, for these services.

## VOTING

### Shareholders Entitled To Vote And Shares Outstanding

You may vote your shares at the Annual Meeting only if you were a shareholder of record at the close of business on March 7, 2005. As of the record date, 174,392,890 shares of capital stock of the Corporation were issued, outstanding, and entitled to vote as follows: 174,376,126 shares of Common Stock and 16,764 shares of \$3.00 Cumulative Convertible Preferred Stock, Series A. You are entitled to one vote for each share of Common Stock and each share of Preferred Stock you own. The number of shares you own (and may vote) is listed on the proxy card.



**How To Submit Your Proxy By Telephone Or Through The Internet**

As an alternative to submitting your proxy by mail, you may submit your proxy with voting instructions by telephone or through the Internet by following the instructions on the enclosed proxy card and the accompanying information sheet. If you are a shareholder of record on the record date, you may call the number on the proxy card if you are calling within the United States, Canada or Puerto Rico or visit the website listed on the enclosed proxy card.

If you reside in any other geographic location, you may vote by visiting the website or by direct mail. If you hold your shares through a broker, nominee, fiduciary or other custodian, you should use the different toll-free telephone number and website address provided with your proxy card or voting instructions. If you choose to submit your proxy with voting instructions by telephone or through the Internet, you will be required to provide your assigned control number noted on the enclosed proxy card before your proxy will be accepted. In addition to the instructions that appear on the enclosed proxy card and information sheet, step-by-step instructions will be provided by recorded telephone message or at the designated website on the Internet.

### **Information For Participants In Certain Plans**

If you have invested in the Lincoln National Corporation Common Stock fund of the Lincoln National Corporation Employees Savings and Profit-Sharing Plan or The Lincoln National Life Insurance Company Agents Savings and Profit-Sharing Plan, the enclosed proxy card, when executed and returned by you, will instruct the trustees of your plan how to vote the shares of Common Stock allocated to your account. If our stock books contain identical account information regarding Common Stock that you own directly and Common Stock that you own through one or more of those plans, you will receive a single proxy card representing all shares owned by you. If you participate in one of these plans and do not return a proxy card by 5:00 p.m. (E.D.T.) on May 9, 2005, the trustees of your plan will vote the shares in your account in proportion to shares held by your plan for which voting instructions have been received.

If you own our shares through an employee benefit plan other than those plans mentioned above, you should contact the administrator of your plan if you have questions regarding how to vote your shares.

### **Quorum**

A majority of all outstanding shares entitled to vote at the Annual Meeting constitutes a quorum (*i.e.*, the minimum number of shares that must be present or represented by proxy at the Annual Meeting in order to transact business). Subject to the rules regarding the votes necessary to adopt the proposals discussed below, abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present. ( Broker non-votes are proxies returned by brokerage firms for which no voting instructions have been received from their principals.) Once a share is represented for any purpose at the Annual Meeting, it will be deemed present for quorum purposes for the remainder of the meeting (including any meeting resulting from an adjournment of the Annual Meeting, unless a new record date is set).

### **Votes Necessary To Adopt Proposals**

A plurality of the votes cast is required for the election of directors (Item 1), which means that the director nominees receiving the highest number of votes will fill the open director seats. With respect to the ratification of the independent registered public accounting firm (Item 2), the proposal will be approved if more shares are cast in favor of the proposal than against it. For this purpose, abstentions and, if applicable, broker non-votes, are not counted as votes cast on Item 2. If any other matters are properly presented at the meeting, a particular proposal will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal.

Under Indiana law, approval of the Lincoln National Corporation Amended and Restated Incentive Compensation Plan (Item 3) will be approved if more shares are cast in favor of the proposal than against it, and abstentions and, if applicable, broker non-votes, are not counted as votes cast on the proposal. However, under New York Stock Exchange ( NYSE ) listing standards, for the shares under the Lincoln National Corporation Amended and Restated Incentive Compensation Plan to be approved for listing, at least a majority of the votes cast on Item 3 must be voted in favor of the proposal, and the total votes cast on the proposal must represent a majority of all shares present and entitled to vote on the proposal at the Annual Meeting. Under the NYSE rules, abstentions are counted as votes cast on a proposal, but broker non-votes are not, and abstentions are counted as votes cast against the proposal.

### **Certain Shareholder-Related Matters**

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There are no shareholder proposals to be brought before the Annual Meeting. To the extent permissible, your proxy will be voted in the discretion of the proxy holders with respect to each matter properly brought before the meeting that has not been enumerated in this Proxy Statement or for which no specific direction was given on the proxy card. For information regarding inclusion of shareholder proposals in future proxy statements, see Shareholder Proposals on page 57. If shareholders at the Annual Meeting approve the minutes of the 2004 annual meeting of shareholders, that approval will not constitute approval of the matters referred to in those minutes.

## **DIRECTOR INDEPENDENCE**

Our Common Stock is traded on the NYSE. NYSE listing standards and our Corporate Governance Guidelines require that a majority of our directors meet the criteria for independence as set forth in the NYSE listing standards. The NYSE listing standards provide that in order to be considered independent, the Board must determine that a director has no material relationship with us other than as a director. As permitted by the NYSE listing standards, the Board has adopted categorical standards to assist it in determining whether its members have such a material relationship with us. These standards are set forth in Article V of our Corporate Governance Guidelines (see Exhibit 6, page E-15).

The Corporate Governance Committee and the Board have reviewed the independence of each Board member, including the nominees for director at the Annual Meeting, considering the standards set forth in our Corporate Governance Guidelines (which include the NYSE standards for independence). The Board considered, among other things, transactions and relationships between each director or any member of his or her immediate family and us or our subsidiaries and affiliates.

As a result of this review, the Board affirmatively determined that all of the directors and nominees, except Mr. Boscia, the CEO, are independent and have no material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us). In addition, the Board determined that those directors who are members of the Audit, Corporate Governance, and Compensation committees are likewise independent of our management and us.

## **CORPORATE GOVERNANCE**

This section is intended to list what we believe are some, but not all, of the more significant aspects of our corporate governance:

All members of the Board, including the nominees for director, are independent of management, other than the CEO, and are independent under the applicable NYSE listing standards.

The independent directors meet in executive session (chaired by the lead director) in connection with each regularly scheduled Board meeting and at such other times as they may desire.

The Board has, among other committees, an Audit Committee, Compensation Committee and Corporate Governance Committee.

The current lead director is Thomas D. Bell, Jr. Mr. Bell has decided not to stand for re-election to the Board. As a result, the Board is currently considering candidates for lead director.

All members of the Audit, Compensation and Corporate Governance committees are independent of management.

Independent directors are not permitted to serve on more than four boards of public companies in addition to our Board, and inside directors are not permitted to serve on more than two boards of public companies in addition to our Board.

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The Board has determined that William J. Avery, a member of the Audit Committee, is an audit committee financial expert as defined by applicable rules of the Securities Exchange Commission ( SEC ). In addition, the Board has determined that other Audit Committee members qualify as audit committee financial experts.

The Audit, Compensation and Corporate Governance committees have charters that comply with the NYSE's listing standards, and those charters are attached to this proxy statement as Exhibit 3 (page E-3), Exhibit 4 (page E-9), and Exhibit 5 (page E-12), respectively. These charters are also available on our website ([www.lfg.com](http://www.lfg.com)) and are also available in print to any shareholder who requests them by contacting our Corporate Secretary.

We have Corporate Governance Guidelines that likewise comply with the NYSE's listing standards, and such Guidelines are attached as Exhibit 6 (page E-15). The Corporate Governance Guidelines are also available on our website ([www.lfg.com](http://www.lfg.com)) and are also available in print to any shareholder who requests them by contacting our Corporate Secretary.

We have a Code of Conduct that is available on our website ([www.lfg.com](http://www.lfg.com)) and is also available in print to any shareholder who requests it by contacting our Corporate Secretary. The Code of Conduct comprises our code of ethics for purposes of Item 406 of Regulation S-K under the Securities Exchange Act of 1934, as amended, and our code of business conduct and ethics for

purposes of the NYSE listing standards. We intend to disclose amendments to or waivers from a required provision of the code by including such information on our website at [www.lfg.com](http://www.lfg.com).

We do not have cumulative voting for directors.

Committee chairs are selected for a three-year term and have a two-term limit.

Our Incentive Compensation Plan, as amended and restated on March 8, 2001, was approved by shareholders, and we are asking shareholders to approve an amendment and restatement to the Plan at the Annual Meeting.

We do not allow the re-pricing of stock options.

We began expensing stock options in 2003 by adopting a method that provides for the retroactive expensing of options, a more conservative method of expensing options than on a prospective basis only.

We have a mandatory retirement age of 70 for independent directors.

The Corporate Governance Committee conducts a review of the performance of the Board and its committees each year.

The Corporate Governance Committee is responsible for individual director assessments and obtains input for such assessments from all Board members other than the director being assessed. These assessments, including confidential feedback to the director, will be completed at least one year prior to a director's anticipated nomination for a new term.

The Audit, Compensation and Corporate Governance committees each conduct a self-evaluation of their respective committee's performance each year.

The Board conducts an annual CEO performance evaluation.

We have a CEO succession plan including an emergency plan in the event a CEO vacancy occurs unexpectedly.

The Board, Audit Committee, Compensation Committee and Corporate Governance Committee each have authority to retain legal counsel or any other consultants or experts without notification to, or prior approval of, management.

Directors are required by our Corporate Governance Guidelines to submit their resignation upon changing their occupational status, and the Corporate Governance Committee with input from the CEO makes a recommendation to the Board regarding acceptance of such resignation.

Directors are required to achieve share ownership of three times their annual cash portion of the retainer within five years of election to the Board, and all directors are in compliance with such requirements.

We will pay the reasonable expenses for each director to attend at least one continuing education program per year.

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We have a director orientation program for new directors, and all directors are invited to attend orientation programs when they are offered.

Certain officers and employees are required to meet the following share ownership requirements within five years, or in the case of officers of our Delaware Investments subsidiaries, within six years, of becoming subject to such requirements:

<u>Title of Officer</u>	<u>Multiple of Base Salary</u>
Chief Executive Officer	5 times
President	5 times
Executive Vice President or equivalent	3 times
Senior Vice President or equivalent	2 times
Vice President or equivalent	1 time

## ITEM 1 - ELECTION OF DIRECTORS

Our Board is currently composed of 12 members and is divided into three classes. Each director is elected for a three-year term. Directors Thomas D. Bell and John G. Drosdick, whose terms expire at the Annual Meeting, have decided not to stand for re-election. As a result, if all three nominees for election at the Annual Meeting are elected, the Board will be composed of 11 members. The Board has decided not to propose another nominee for election at the Annual Meeting. Accordingly, after the Annual Meeting, one vacancy will remain on the Board and in the class of directors being elected at the Annual Meeting. The Corporate Governance Committee intends to conduct a thorough search for a nominee to fill the vacancy to the class of directors being elected at the Annual Meeting with the assistance of an independent search firm. It intends to use the independent search firm to help identify and screen appropriate candidates. The Board is authorized under our Bylaws to fill the vacancy in the class of directors being elected at the Annual Meeting without seeking shareholder approval.

If you sign the enclosed proxy card and return it to us, your proxy will be voted for the Board's nominees Marcia J. Avedon, Ph.D., J. Patrick Barrett and Michael F. Mee for terms expiring at the 2008 Annual Meeting, unless you specifically indicate on the proxy card that you are withholding authority to vote for one or more of those nominees. Messrs. Barrett and Mee are current directors of LNC. Jon A. Boscia, our CEO, recommended Dr. Avedon to the Corporate Governance Committee. All nominees have agreed to serve on the Board if they are elected. If any nominee is unable (or for whatever reason declines) to serve as a director at the time of the Annual Meeting, proxies may be voted for the election of a qualified substitute nominee selected by the Board.

### Nominees For Terms Expiring At The 2008 Annual Meeting

Nominee for a Term Expiring at the 2008 Annual Meeting

*PRINCIPAL OCCUPATION:*

**Marcia J. Avedon, Ph.D.**

Senior Vice President, Human Resources, Merck & Co., Inc. (a pharmaceutical company) [January 2003 - present]

Age 43

*FIVE YEAR BUSINESS HISTORY:*

Vice President, Talent Management and Organization Effectiveness, Merck & Co., Inc. [September 2002 - December 2002]

Vice President, Corporate Human Resources, Honeywell International (a diversified manufacturing and technology company) [August 2001 - September 2002]



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Vice President, Human Resources & Communications, Performance Polymers & Chemicals, Honeywell International [July 2000 - July 2001]

Vice President, Human Resources & Communications, Performance Polymers, Honeywell International [October 1997 - July 2000]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

None

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

Nominee for a Term Expiring at the 2008 Annual Meeting

*PRINCIPAL OCCUPATION:*

**J. Patrick Barrett**

Chairman and Chief Executive Officer of CARPAT Investments (a private investment company) [November 1987 present]

*Director since 1990*

*Age 68*

*FIVE YEAR BUSINESS HISTORY:*

President of Telergy, Inc. (an applications infrastructure provider serving the telecommunications and energy industries) [April 1998 – August 2001] (Telergy filed a voluntary bankruptcy petition under Chapter 11 of the federal bankruptcy laws in October 2001 and under Chapter 7 in December 2001)

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

None

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

Lincoln Life & Annuity Company of New York [July 1996-Present]

Nominee for a Term Expiring at the 2008 Annual Meeting

*PRINCIPAL OCCUPATION:*

**Michael F. Mee**

Retired Executive and Chief Financial Officer

*Director since 2001*

*Age 62*

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*FIVE YEAR BUSINESS HISTORY:*

Prior to his retirement in 2001, Mr. Mee was Executive Vice President and Chief Financial Officer of Bristol-Myers Squibb Company (a pharmaceutical and related health care products company) [March 1994 April 2001]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Ferro Corporation [April 2001 present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

**The Board of Directors recommends a vote FOR each of the nominees.**

**Directors Continuing In Office**

The identity of, and certain biographical information relating to, the directors who will continue in office after the Annual Meeting are set forth below.

Continuing in Office for a Term Expiring at the 2006 Annual Meeting

*PRINCIPAL OCCUPATION:*

**Jenne K. Britell, Ph. D.** Chairman and Chief Executive Officer of Structured Ventures, Inc. (advisors to U.S. and International private equity and venture capital firms) [February 2001 present]

*Director since 2001*

*Age 62*

*FIVE YEAR BUSINESS HISTORY:*

President of GE Capital Global Commercial & Mortgage Banking (international commercial and mortgage banking) and Executive Vice President of GE Capital Global Consumer Finance (an international consumer finance company) [July 1999 March 2000]

President and Chief Executive Officer of GE Capital Central and Eastern Europe (consumer and commercial businesses) [January 1998 June 1999]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Crown Holdings, Inc. (formerly, Crown Cork & Seal Company, Inc.) [July 2000 present]

Aames Investment Corporation (formerly Aames Financial Corp.) [July 2001 present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

Continuing in Office for a Term Expiring at the 2006 Annual Meeting

*PRINCIPAL OCCUPATION:*

**M. Leanne Lachman**

*Director since 1985*

*Age 62*

President, Lachman Associates LLC (independent real estate consultant and investment advisor) [October 2003 present]

*FIVE YEAR BUSINESS HISTORY:*

Principal and Managing Director of Lend Lease Real Estate Investments (a global investment manager) [November 1999 - October 2003]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Liberty Property Trust [June 1994 - present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

Lincoln Life & Annuity Company of New York [July 1996 - Present]

Continuing in Office for a Term Expiring at the 2006 Annual Meeting

*Principal Occupation:*

Executive Vice President of Information Services and Chief Information Officer of WellPoint, Inc. (managed healthcare company) [July 2002 - present]

**Ron J. Ponder, Ph.D.**

*Director since 2000*

*FIVE YEAR BUSINESS HISTORY:*

*Age 62*

President and Chief Executive Officer of Telecom Media Networks, a Cap Gemini Ernst & Young Company (a telecommunications/internet consulting operation) [April 1999 - May 2002]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Atlantic Health Systems [1995 - present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

Lincoln Life & Annuity Company of New York [March 2001- present]

Continuing in Office for a Term Expiring at the 2006 Annual Meeting

*PRINCIPAL OCCUPATION:*

**Jill S. Ruckelshaus**

Retired Executive

*Director since 1975*

Age 68

*BUSINESS HISTORY:*

Prior to her retirement in 1997, Ms. Ruckelshaus was a consultant for William D. Ruckelshaus Associates (environmental consultants) [January 1989 - January 1997]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Costco, Inc [January 1996 - present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

Lincoln Life & Annuity Company of New York [May 2003 - present]

Continuing in Office for a Term Expiring at the 2007 Annual Meeting

*PRINCIPAL OCCUPATION*

**William J. Avery**

Retired Executive

*Director since 2002*

*Age 64*

*FIVE YEAR BUSINESS HISTORY:*

Chairman of the Board and Chief Executive Officer of Crown Cork & Seal Company, Inc. (a manufacturer of packaging products for consumer goods) [April 1995 February 2001]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Rohm & Haas [February 1997 present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

Continuing in Office for a Term Expiring at the 2007 Annual Meeting

*PRINCIPAL OCCUPATION :*

**Jon A. Boscia**

Chairman of Lincoln National Corporation [March 2001 present]

*Director since 1998*

Chief Executive Officer of Lincoln National Corporation [July 1998 present]

*Age 52*

*FIVE YEAR BUSINESS HISTORY:*



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President of Lincoln National Corporation [January 1998 - March 2001]

President, The Lincoln National Life Insurance Company [December 1999 - July 2004]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

Hershey Foods Corporation [August 2001 - present]

Georgia-Pacific Corporation [March 2005 - present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

Lincoln Life & Annuity Company of New York [July 1996 - present]

Continuing in Office for a Term Expiring at the 2007 Annual Meeting

*PRINCIPAL OCCUPATION :*

**Eric G. Johnson**

*Director since 1998*

*Age 54*

President and Chief Executive Officer of Baldwin Richardson Foods Company (a manufacturer of dessert products and liquid condiments for retail and the food service industry) [December 1997 present]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

None

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

Continuing in Office for a Term Expiring at the 2007 Annual Meeting

*PRINCIPAL OCCUPATION:*

**Glenn F. Tilton**

*Director since 2002*

*Age 57*

Chairman, President and Chief Executive Officer of UAL Corporation and United Airlines [UAL Corporation filed a voluntary bankruptcy petition under Chapter 11 of the federal bankruptcy laws in December 2002]

*FIVE YEAR BUSINESS HISTORY:*

Vice Chairman of the Board of ChevronTexaco Corporation (a global energy corporation) [October 2001 August 2002]

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Chairman and CEO of Texaco Inc. (an integrated international petroleum company) [February 2001 - October 2001]

President of Texaco's Global Business Unit [January 1997 - February 2001]

*OTHER DIRECTORSHIPS OF PUBLIC COMPANIES:*

UAL Corporation and United Airlines [September 2002 - present]

*OTHER DIRECTORSHIPS OF OUR AFFILIATES:*

None

## THE BOARD OF DIRECTORS

### Composition Of The Board Of Directors; Compensation Of Directors

The members of the Board, including Board nominees, their relevant term of office, and certain biographical information are set forth above under Item 1 Election of Directors. Compensation of our directors is discussed below under Compensation of Directors. During 2004, the Board held six regularly scheduled meetings. All directors attended 94% or more of the aggregate meetings of the Board and Board committees that he or she was eligible to attend.

### Committees

The Board currently has six standing committees (*i.e.*, committees composed entirely of Board members): the Audit Committee, the Compensation Committee, the Development Committee, the Corporate Governance Committee (formerly, the Nominating and Corporate Governance Committee), the Securities Committee and the Committee on Corporate Action (formerly, the Pricing Committee). The following table lists the Directors who currently serve on the Committees and the number of meetings held for each Committee during 2004.

#### Current Committee Membership and Meetings Held During 2004

(C=Chair M=Member)

Name	Audit	Compensation	Development	Corporate Governance	Securities	Corporate Action <sup>1</sup>
William J. Avery	M			M		
J. Patrick Barrett		M	M		C	
Thomas D. Bell, Jr.		C				
Jon A. Boscia			M		M	M
Jenne K. Britell, Ph.D.	M			M		
John G. Drosdick		M	M			
Eric G. Johnson			C		M	
M. Leanne Lachman	C					
Michael F. Mee	M	M				
Ron J. Ponder, Ph.D.				C		
Jill S. Ruckelshaus			M	M		
Glenn F. Tilton	M	M				
<b>Number of Meetings in 2004:</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>1</b>	

- The Committee on Corporate Action (formerly, the Pricing Committee) normally takes action by the unanimous written consent of the sole member of that Committee, and one such action was taken in 2004.

The functions and responsibilities of the key standing Committees of Lincoln's Board are described below.

*Audit Committee*

The primary function of the Audit Committee is oversight. The principal functions of the Audit Committee include:

assist the Board of Directors in its oversight of (a) the integrity of our financial statements; (b) our compliance with legal and regulatory requirements; (c) the independent auditor's qualifications and independence; and (d) the performance of our general auditor and independent auditor;

select, evaluate and replace the independent auditors, and approve all engagements of the independent auditors;

review significant financial reporting issues and practices;

discuss our annual consolidated financial statements and quarterly management discussion and analysis of financial condition and results of operations included in our SEC filings and annual report to shareholders, if applicable;

inquire about significant risks and exposures, if any, and review and assess the steps taken to monitor and manage such risks;

establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal auditing controls, or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters; and

prepare the report required to be prepared by the Audit Committee pursuant to the rules of the SEC for inclusion in our annual proxy statement.

The Board has determined that all members of the Audit Committee meet the independence requirements contained in the applicable listing standards of the NYSE and applicable SEC rules. The Board has determined that William J. Avery is an audit committee financial expert as defined under Item 401 of Regulation S-K under the Securities Exchange Act of 1934, as amended. In addition, the Board has determined that the Audit Committee has other members who qualify as audit committee financial experts. The Board has adopted a written charter for the Audit Committee, a copy of which is attached as Exhibit 3 beginning on page E-3.

More information concerning the Audit Committee, including the Audit Committee Report, is set forth below under Ratification of the Appointment of the Independent Registered Public Accounting Firm beginning on page 35.

### *Compensation Committee*

The principal functions of the Compensation Committee include:

establish, in consultation with senior management, our general compensation philosophy;

review and confer on the selection and development of officers and key personnel;

review and approve corporate goals and objectives relevant to the compensation of the chief executive officer, evaluate the chief executive officer's performance in light of these goals and set the chief executive officer's compensation level based on this evaluation;

review and recommend to the Board for approval candidates for chairman of the board and chief executive officer;

review and approve all compensation strategies, policies and programs that encompass total remuneration of our Executive Officers and key personnel;

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make recommendations to the Board regarding incentive compensation and equity-based plans and approve all grants and awards under such plans;

approve employment contracts and agreements for Executive Officers;

approve employee benefit and executive compensation plans and programs and changes to such plans and programs, if the present value cost of each plan or change to a plan will not exceed \$20 million for the next five calendar years after their effectiveness; and

prepare an annual report on executive compensation for inclusion in our proxy statement.

The Board has determined that all members of the Compensation Committee meet the independence requirements contained in the applicable listing standards of the NYSE.

A copy of the Compensation Committee Charter is attached as Exhibit 4 beginning on page E-9.

### *Corporate Governance Committee*

The principal functions of the Corporate Governance Committee include:

identify individuals qualified to become Board members;

recommend to the Board nominees for director (including those recommended by shareholders in accordance with our Bylaws) and for Board committees;

take a leadership position regarding corporate governance and to develop and recommend to the Board a set of corporate governance principles;

develop and recommend to the Board standards for determining the independence of directors;

recommend to the Board an overall compensation program for directors;

make recommendations to the Board regarding the size of the Board and the size, structure and function of Board committees;

assist in the evaluation of the Board and be responsible for the evaluation of individual directors; and

recommend to the Board such additional actions related to corporate governance as the Committee deems advisable.

Although the Corporate Governance Committee does not solicit shareholder recommendations regarding director nominees to be proposed by the Board, it will consider such recommendations if they are made in accordance with our Bylaws (see Shareholder Proposals on page 57 and Exhibits 1 and 2 on pages E-1 and E-2, respectively). See Director Nomination Process on page 56 for further information. Director nominees to be proposed by a shareholder at a shareholders meeting must also comply with the provisions of our Bylaws. Recommendations regarding director nominees to be proposed to the Board, along with relevant qualifications and biographical material, should be sent to the Corporate Secretary.

A copy of the Corporate Governance Committee Charter is attached as Exhibit 5 beginning on page E-12 and is also available on the Corporate Governance page of our website at [www.lfg.com](http://www.lfg.com).

#### ***Development Committee***

The Development Committee generally may authorize the following transactions and expenditures having a value greater than \$10 million but not more than \$20 million:

acquisitions or divestitures of assets, blocks of business (excluding indemnity and financial reinsurance), and equity interests in corporations, partnerships and other legal entities;

mergers, strategic investments and joint ventures;

capital commitments or expenditures for leases and asset purchases;

purchases of securities issued by us or any of our affiliates;



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issuance of securities by us or any of our affiliates, except for securities from our shelf registration, which are authorized by the Securities Committee;

acquisitions or dispositions of information systems development projects; and

other transactions referred to the Development Committee by the executive steering committee (a management committee) or chief executive officer.

The Development Committee also may authorize capital transactions (i.e. capital contributions, merger or other capital transaction) among us and our affiliates having a value greater than \$100 million but not more than \$200 million.

### *Securities Committee*

The principal functions of the Securities Committee include:

exercise all the authority of the Board with respect to the issuance and sale of the securities that may from time to time be offered from our shelf registration statement on file with the SEC;

make all determinations with respect to the terms, conditions and provisions of any securities sold pursuant to the shelf registration statement, provided:

such determinations are not inconsistent in any material respect with the general description of such securities in the registration statement, and

any sales of Common Stock pursuant to the shelf registration statement are at a price of not less than \$20 per share nor more than \$125 per share (subject to adjustments as a result of

stock splits, stock dividends, recapitalizations or similar transactions with respect to the Common Stock).

The functions of the Securities Committee and the Committee on Corporate Action overlap to a large extent. The Securities Committee must approve each offering of securities from the shelf registration statement and to the extent the Securities Committee exercises authority or makes determinations pursuant to its authority, the Committee on Corporate Action must act consistent with the Securities Committee's actions. The Securities Committee may establish limits or parameters within which the Committee on Corporate Action must act with respect to any offering. The Committee on Corporate Action will exercise authority and make determinations within limits or parameters, if any, set by the Securities Committee. Because the Committee on Corporate Action consists of only one member, it normally will be able to move quickly to take advantage of changing market conditions.

#### *Committee on Corporate Action*

Within limits now or hereafter specified by the Board and the Securities Committee, the principal functions of the Committee on Corporate Action include:

determine the pricing of the securities offered from the shelf registration statement (including the interest rate, dividend rate, distribution rate or contract adjustment payments, as applicable, the conversion ratio or settlement rate, as applicable, the price at which such securities will be sold to the underwriters, the underwriting discounts, commissions and allowances relating thereto and the price at which such securities will be sold to the public);

approve the final form of underwriting agreement, security and other transaction documents relating to the offering and sale of the securities under the shelf registration statement; provided that:

such determinations are not inconsistent in any material respect with the general description of such securities in the shelf registration statement, and

any sales of Common Stock pursuant to the shelf registration statement are at a price of not less than \$20 per share nor more than \$125 per share (subject to adjustments as a result of stock splits, stock dividends, recapitalizations or similar transactions with respect to the Common Stock); and

elect certain classes of our officers as the Board may determine by resolution.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, Executive Officers and beneficial owners of greater than 10% of our equity securities to file reports of holdings and transactions with the SEC and the NYSE. Based on written representation that we have received from our Executive Officers and directors, and a review of the reports filed with respect to transactions that occurred during 2004, we believe that each of the 2004 independent directors (William J. Avery, J. Patrick Barrett, Thomas D. Bell, Jr., Jenne K. Britell, Ph.D., John G. Drosdick, Eric G. Johnson, M. Leanne Lachman, Michael F. Mee, Ron J. Ponder, Ph.D., Jill S. Ruckelshaus and Glenn F. Tilton) had two late filings each disclosing one transaction. In addition, the following Executive Officers had one late filing disclosing one transaction relating to our

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discretionary contribution to our deferred compensation plan: Jon A. Boscia, Chairman and Chief Executive Officer of Lincoln National Corporation; George E. Davis, Senior Vice President of Lincoln National Corporation; Jude T. Driscoll, President & Chief Executive Officer of Lincoln National Investment Companies and Delaware Management Holdings, Inc.; John H. Gotta, President and Chief Executive Officer of The Lincoln National Life Insurance Company; Barbara S. Kowalczyk, Senior Vice President and Richard C. Vaughan, Executive Vice President and Chief Financial Officer of Lincoln National Corporation. Also, Barbara S. Kowalczyk had an additional late filing reporting three transactions, and Dennis L. Schoff, Senior Vice President and General Counsel of Lincoln National Corporation, had one late filing reporting routine bi-weekly contributions to our deferred compensation

plan from January 9, 2004 through August 20, 2004, and one transaction relating to our discretionary contribution to our deferred compensation plan.

## SECURITY OWNERSHIP

### Security Ownership Of Directors, Nominees And Executive Officers

We have two classes of equity securities: Common Stock and Preferred Stock. Table A on page 46 shows the number of shares of Common Stock and stock units (*i.e.*, non-transferable, non-voting phantom units, the value of which is the same as the value of the corresponding number of shares of Common Stock) beneficially owned by each director, nominee for director, and Named Executive Officer, individually, and by all directors and Executive Officers as a group (in each case as of February 28, 2005). As of that date, none of the persons listed in that table owned more than 1% of our issued and outstanding Common Stock, except that all directors and Executive Officers, as a group owned 1.48%, nor did any of those persons own any Preferred Stock.

Whenever we refer in this Proxy Statement to the Named Executive Officers, we are referring to those Executive Officers that we are required to identify in the Summary Compensation Table (Table C) on page 48. Those individuals are: Jon A. Boscia, John H. Gotta, Robert W. Dineen, Richard C. Vaughan, and Jude T. Driscoll. For more information regarding these officers and their compensation, see Table C and Summary Annual and Long-Term Compensation below.

### Security Ownership Of Certain Beneficial Owners

Table B on page 47 sets forth the names of persons known by us to own beneficially more than 5% of its Common Stock at December 31, 2004. Those stockholders are Capital Research and Management Company (6.1%) and Barclays Global Investors, N.A. (6.9%). We know of no one who beneficially owns more than 5% of our Preferred Stock.

## EXECUTIVE COMPENSATION

### THE REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

#### Responsibilities and Composition of the Compensation Committee

The Compensation Committee (the Committee) is a committee of the Board of Directors consisting exclusively of non-employee directors. The role of the Committee is to oversee the Corporation's compensation plans and policies and to review and approve decisions regarding executive compensation programs. The Committee reviews and approves all equity-based and cash awards for the CEO (CEO) and our other executive officers, including the Named Executive Officers. The term Executive Officers as used in this report includes the CEO and the other Named Executive Officers (named in Table C) and the Corporation's other executive officers, unless otherwise indicated. The Committee meets at scheduled times during the year; it also considers and takes action by written consent. No Committee member has an interlocking or other relationship that would call into question his or her independence as a Committee member, nor has any Committee member ever served as an Executive or employee of the Corporation.

#### Compensation Philosophy

The Committee strives to set the compensation of the Corporation's Executive Officers at levels that will:

Attract and retain the most talented individuals in the financial services industry; and

Remain competitive with selected companies within the Corporation's market.

The Committee compares the compensation paid to its Executive Officers to that paid by selected companies in the financial services industry. General industry comparisons are made for positions not requiring unique knowledge of the financial services industry. Towers Perrin, an outside compensation consulting firm, has generally assisted the Committee in identifying relevant peer companies and assembling the compensation data from those companies. Towers Perrin is retained by and accountable to the Committee.

The Committee's basic philosophy with respect to executive compensation is that it be closely aligned with the Corporation's strategic intent to become the financial partner of choice for accumulating, protecting, and enjoying wealth. The Corporation cannot achieve its goal of becoming the financial partner of choice for investors, particularly high net-worth investors, with average products and executives with average capabilities. In order to attract and retain superior talent—the key to superior products and services—the Committee may reward above-average financial performance with above-average compensation. However, the Committee believes that the compensation of the Corporation's Executive Officers should be highly leveraged—that is, that a significant portion of executive compensation should have risk built into it. To achieve this, the Committee intends to reward average or below-average financial performance with below-average compensation. The degree to which compensation is leveraged should be highest at the highest levels (e.g. the CEO), and less leveraged at lower levels (the other officers of the Corporation).

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There are three primary elements of executive compensation: base salary, incentive awards, and benefits. For Executive Officers, fixed components (base salary and certain benefits) should make up the smallest percentage of total compensation, while the largest component of total compensation (incentive awards) should vary with the Corporation's financial performance. Incentive awards reward Executive Officers for both short-term performance and long-term financial performance. Ninety percent of the short-term incentive award for 2004, the annual incentive award bonus, was based on the Corporation's financial performance, and ten percent was based on subjective factors. The long-term incentive award program is based solely on the Corporation's financial performance.

In general, the various compensation elements provided, and the mix of those elements, is designed to maximize the creation of long-term shareholder value. To accomplish this objective, the Committee develops executive compensation policies that are consistent with and linked to the Corporation's strategic business objectives, as follows:

Link the level of compensation paid to each Executive Officer with the Corporation's financial performance, appropriately balancing the rewards for short-term and long-term performance. Immediate linkage currently takes the form of annual incentive awards that are conditioned on the Corporation's financial performance and other corporate and business unit measures during the previous fiscal year/calendar year, as well as subjective measures.

Focus management on the long-term interests of the Corporation and its shareholders. This objective is accomplished by establishing long-term incentive awards with three-year performance cycles.

Align the continuing financial interests of the Corporation's Executive Officers with those of its shareholders.

To achieve this last goal, the Corporation requires certain categories of officers, including the Executive Officers, to meet specific share ownership requirements based upon a multiple of their base salary, as set forth below:

<u>Title of Officer</u>	<u>Multiple of Base Salary</u>
CEO	5 times
President	5 times
Executive Vice President or equivalent	3 times
Senior Vice President or equivalent	2 times
Vice President or equivalent	1 time

Stock options, even if vested and in-the-money, are not counted in determining whether share ownership requirements are satisfied. Amounts invested in stock and stock unit accounts through the Corporation's qualified savings plans and non-qualified deferred compensation plans are counted for this purpose. Newly appointed Executive Officers have five years, or in the case of newly appointed Executive Officers of Delaware Management Holding Company, Inc. ( Delaware ), six years, to achieve the applicable multiple, with annual benchmarks strictly enforced (e.g., for non-Delaware employees, share ownership must equal 20% of annual Base Salary after the first year). All Named Executive Officers who are currently officers of the Corporation are on schedule to meet, or have met or exceeded their share ownership requirements. In March 2004, the Corporation mandated that individuals at the Vice President level and above who are not on target to meet their share ownership requirement will have all or a portion of their 2004 annual incentive award and/or long-term incentive bonus(es) paid in LNC Stock.

### Compensation Methodology

The Committee reviews market data and assesses the Corporation's competitive position in each component of executive compensation: base salary, incentive compensation, and benefits. In particular, during 2004, the Committee focused on the Corporation's executive pension programs. The market comparison used by the Committee included a broad-based survey of companies in the financial services industry that provided specific benefit level information for various Executive Officers of the Corporation relative to the market. The Committee selected the survey primarily because the companies covered by the survey operate in businesses similar to the Corporation's and compete for executives with experience and skills similar to those the Corporation requires. Towers Perrin conducted the survey, reviewed the data and compared similar executive pension programs to those of the Corporation, presented the results of their analysis to the Committee, and provided alternatives for the Committee to consider.

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Beginning in late 2003, and continuing through 2004, the Committee reviewed market compensation data for the Executive Officers. Towers Perrin performed a compensation analysis based



on competitive compensation data representing the relevant businesses and scope for each position and provided the data to the Committee to use in establishing the targets for the 2004 base salary and incentive compensation (short-term and long-term) awards. The Committee's compensation decisions and target levels for individual Executive Officers are also based on factors such as individual performance, level of responsibility and unique skills. During 2004, the Committee also evaluated and changed the measures used for determining the payout for its performance-based long-term incentive program awards. Specifically, the Committee reviewed the long-term incentive program measures in light of changes to peer group composition.

### **The Three Primary Elements of Executive Compensation: Base Salary, Incentive Awards, and Benefits**

#### ***BASE SALARY***

Annual Base Salary is designed to compensate executives for their sustained performance. Base salary levels for the Executive Officers are reviewed annually by the Committee and are set based on: (1) market compensation data; (2) individual performance; (3) the CEO's recommendation (for each of the other Executive Officers); and (4) pay-increase guidelines approved by the Committee. The Committee approves in advance all salary increases for Executive Officers, including the Named Executive Officers. In general, Annual Base Salaries for Executive Officers for 2004 were set at or below the median of the compensation peer group.

#### ***INCENTIVE AWARDS***

Incentive awards comprise the largest portion of total compensation for Executive Officers. Currently, incentive awards are made to the Corporation's Executive Officers under the Amended and Restated Lincoln National Corporation Incentive Compensation Plan (the "ICP"), which was approved by the Corporation's shareholders on May 15, 1997 and re-approved by shareholders on May 10, 2001. The ICP provides the Committee with the authority to grant annual incentive awards, which represent a conditional right to receive cash (or LNC Stock if share ownership requirements have not been met), upon achievement of pre-established performance goals during the specified one-year period. The ICP also gives the Committee the authority to grant long-term performance awards based upon multiple-year performance cycles. In the case of both annual and long-term incentive awards, the Committee retains discretion, if the relevant performance measures are achieved, to reduce or increase any award at the end of the relevant one-year period or multiple-year performance cycle above or below the target amount originally set. In the case of the Named Executive Officers covered by section 162(m) of the Internal Revenue Code, such awards are subject to additional limits established in compliance with the performance-based compensation rules of that section. Awards may also be subject to additional criteria (e.g., continued service requirements, or non-compete agreements).

#### **ANNUAL INCENTIVE COMPENSATION**

On March 11, 2004, the Committee approved the 2004 performance measures for annual incentive awards to the Corporation's Executive Officers. The 2004 annual incentive award performance measures were based on:

Growth in income from operations<sup>1</sup> per diluted share (an absolute measure);

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<sup>1</sup> Income from operations is defined as net income determined in accordance with generally accepted accounting principles ("GAAP"), excluding, as applicable, the after-tax effects of realized gains (losses) on investments and derivatives, restructuring charges, gains (losses) related to reinsurance embedded derivatives/trading account assets, cumulative effect of accounting changes, reserve changes on business

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sold through reinsurance net of related deferred gain amortization, gains (losses) on sale of subsidiaries and blocks of business, and loss on early retirement of debt, including subordinated debt. Income from operations is an internal measure used by the company in the management of its operations. Management believes that this performance measure explains the results of the Corporation's ongoing operations in a manner that allows for a better understanding of the underlying trends in the Corporation's current business. Return on equity is calculated using income from operations.

Return on equity (an absolute measure);

Retail sales growth relative to industry-based indices (a relative measure); and

Human resources measures specifically, success in (a) attracting and retaining a diverse and talented employee group, (b) management development, and (c) succession planning.

In terms of weighting, the first three measures (growth in income, return on equity, and sales growth) account for ninety percent of the award's measures, with the human resources measures accounting for the remaining ten percent.

On March 10, 2005, the Committee certified that the performance measures for the payment of the 2004 annual incentive awards had been satisfied to the extent required for the payment of awards. As a result of meeting these pre-established measures, the Committee approved the payouts as set forth in Table C, Summary Compensation Table on page 48. None of these awards exceeded the 162(m) Maximum Amount.<sup>2</sup> The overall performance result for 2004 resulted in a payout of 206% of the targeted payout.

The Committee also approved, with respect to the Executive Officers, the 2005 annual incentive award targets in November of 2004, and the performance measures for those awards on January 13, 2005. None of the measures for the 2005 annual incentive awards is a subjective performance measure. The measures are growth in income from operations per diluted share and return on equity (both absolute measures), and retail sales growth relative to industry-based indices (a relative measure). For some Executive Officers, including some of the Named Executive Officers, these performance measures may be supplemented with additional measures appropriate to their particular business units, with a resulting change in the weighting of factors.

#### **LONG-TERM INCENTIVE COMPENSATION**

On March 11, 2004, the Committee approved the performance measures for the 2004-2006 long-term incentive award performance cycle for the Corporation's Executive Officers, including the Named Executive Officers. The 2004-2006 performance cycle measures are based on:

Total shareholder return (a relative measure)<sup>3</sup>;

Growth in income from operations per diluted share (an absolute measure); and

Return on equity (an absolute measure).

On March 10, 2005, the Committee approved the award payouts for the 2002-2004 performance cycle, based on its review of the various reports and analysis of the Corporation's performance during this cycle, and after certifying that the performance measures had been satisfied to the extent required for the payment of the awards. The overall performance result for the 2002-2004 performance cycle resulted in a payout equal to 43% of the long-term incentive performance award target. None of these awards exceeded the 162(m) Maximum Amount. The performance measures for the performance cycle ending in 2004 were based on:

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Total shareholder return (a relative measure);

Growth in income from operations per diluted share (a relative measure); and

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<sup>2</sup> For Executive Officers who are covered employees under Section 162(m) of the Internal Revenue Code (all of the Named Executive Officers), annual incentive awards can in no event exceed the lesser of: (a) specified dollar amount set forth in the ICP (\$8,000,000), or (b) limits determined by reference to the Corporation's income from operations ( 162(m) Maximum Amount ).

<sup>3</sup> The shareholder return measure is a comparison of the price at the beginning of the cycle (the average of the closing stock prices for each trading day in the month of December preceding the beginning of the performance cycle) and the price at the end of the cycle (the average of the closing prices for each trading day in the last December of the cycle). Shareholder return is calculated to include both share price changes and dividends paid.

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Return on equity (a relative measure).

Each of the performance measures for the 2002-2004 performance cycle were relative, not absolute, measures, with the Corporation's results from the performance period compared against those of a peer group of companies. Peer companies for this cycle included Allmerica Financial Corporation, AmerUs Group Co., Hartford Financial Services Group, Inc., Jefferson Pilot Corporation, John Hancock Financial Services, Inc., Manulife Financial Corporation, MetLife, Inc., MONY Group, Inc., Nationwide Financial Services, Inc., and Sun Life Financial Services CDA, Inc. The Committee approved the 2002-2004 performance cycle payouts as set forth in Table D. No 2002-2004 performance cycle awards exceeded the 162(m) Maximum Amount. All of the awards were paid in cash.

The performance measures and other features of the 2003-2005 long-term incentive award performance cycle are as described in last year's Report of the Compensation Committee.

The performance measures approved for the 2004-2006 performance cycle represent a change from previous cycles. For the 2004-2006 cycle, none of the performance measures is based on a comparison of peer companies. The total shareholder return measure is based on a comparison of the Corporation's growth in shareholder return during the performance period to that of companies represented in a modified S&P 500 Index<sup>4</sup>. The Committee removed the peer company comparison component out of its concern that judging the Corporation's financial performance relative to a peer group of companies could produce substantial payouts in situations in which the Corporation performed well against its selected peer group (representing a relatively narrow segment of the market), but had poor results in absolute terms. In other words, the use of a peer group comparison combined with the leveraged nature of the performance awards, might result in substantially above market payouts for the Corporation's Executive Officers even in a period with poor absolute numbers and a falling stock price. The contrary is also true: in a great year, with high absolute performance numbers and rising stock price, there could be a very low payout. In addition, the Committee encountered other challenges when basing performance measures on a comparison of peer companies, including challenges in maintaining continuity throughout a particular performance cycle because of the intense merger and acquisition activity in this segment of the financial services industry. The Committee believes that the absolute measures that comprise the 2004-2006 performance cycle provide meaningful data regarding the Corporation's financial performance, are less susceptible to volatility, and diminish the potential for counter-intuitive and unintended results (high payouts for poor performance, or low payouts for periods of strong financial performance).

The 2002-2004 long-term performance awards represented conditional rights to receive cash upon the achievement of pre-established performance goals during the performance cycle. For the 2004-2006 performance cycle, however, each Executive Officer was permitted to elect (at the beginning of the performance cycle) to receive his or her award in a mixture of cash, LNC Stock, or stock options. These elections were made before the Committee approved the awards. The value of each award relative to the target amount was adjusted to reflect the relative percentages of cash, stock options and/or LNC Stock comprising the award. If the Corporation achieves the target level of financial performance established for the performance cycle, for example, an Executive Officer electing payment solely in stock options or LNC Stock will receive stock options or LNC Stock having a value equal to 100% of the target amount. For Executive Officers electing stock options, however, amounts above the established target amount are paid solely in shares, not options. In the alternative, an Executive Officer electing to receive payment solely in cash will receive cash equal to 78% of the target amount.

Dividend equivalent rights (DER) attach to any portion of the award that the Executive Officer elects to receive as LNC Stock. DERs are credited on each dividend payment date declared by the Corporation with respect to LNC Stock at the same rate as the LNC stock dividends. If pre-established performance goals are met, and long-term incentive awards are paid, the DERs will be paid in shares of LNC Stock.

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<sup>4</sup> Only those companies that are included in the Index at both the beginning and the end of the cycle will be included in determining the Corporation's relative percentile ranking.

To the extent that the Executive Officer has not met his or her share ownership requirement, long-term incentive awards (for all cycles) may be paid in LNC Stock.

**Stock Options:** Stock options currently play a relatively minor role in executive compensation. As stated above, stock options are generally awarded only when a long-term performance award recipient elects to receive their ultimate payout in options, or when an employee exercises a reload option. All options will be granted with an exercise price set at the fair market value (as defined in the ICP) of LNC Stock at the date of option grant. For purposes of options granted in connection with long-term incentive awards, the option grant date is deemed to be the date of the grant of the long-term incentive award. Further, the Committee anticipates that options granted in connection with the payout of long-term incentive awards will have a ten-year term, which will begin to run from the date of grant (not later than March of the first year of the performance cycle). In general, the Committee anticipates that options granted in connection with the payout of long-term incentive awards will not have a re-load feature.

**Restricted Stock:** Currently, restricted stock awards are generally used for recruiting new talent. Awards of shares of restricted stock typically are restricted from sale or trade for three years after date of grant, except in certain situations relating to retirement (with Committee consent), death, disability, termination without cause, or a change of control of the Corporation. Executive Officers may vote their restricted shares during the period that the shares are issued but restricted, and are generally paid dividends on the shares, or are compensated for dividends that would have been paid if the shares had not been restricted. Generally, no dividends or dividend-related compensation is paid until restrictions have lapsed. In addition to lapse of time, the Committee may impose additional restrictions on the vesting of restricted stock awards. The number of restricted shares held by the Named Executive Officers is reflected in Table A, Security Ownership of Directors, Nominees and Executive Officers on page 46.

**Stock Units:** Stock units are a form of deferred compensation, the value of which mirrors the value of a corresponding number of shares of LNC Stock. Stock units may be awarded as restricted stock units, similar to restricted stock awards. The restrictions on restricted stock units typically lapse three years from the date of grant. Stock units and restricted stock units have no voting rights and dividend equivalents are converted into additional stock units. As with restricted stock awards, the Committee may impose restrictions in addition to, or in lieu of, lapse of time on the vesting of restricted stock units. In addition, the dividend equivalent rights on restricted stock grants and long-term incentive awards, where payment is in shares of LNC Stock, are credited in stock units.

**Other Awards:** The Committee also has the flexibility to grant other awards under the ICP, including bonus stock, stock appreciation rights (or SARs ), convertible securities and cash awards. Thus far, only cash-settled SARs have been awarded. No Executive Officers received these types of awards in 2004.

In any given year, an Executive Officer may receive a combination of some or all of these forms of incentive awards, depending on circumstances such as individual and corporate performance, and the awards may provide for vesting based on continued service and/or the achievement of performance goals.

## ***BENEFITS***

Benefits offered to key Executive Officers are largely those that are offered to the general employee population (with some variation, largely to promote tax efficiency and replacement of benefit opportunities lost due to regulatory limits). In general, these benefits provide a safety net for protection against the financial catastrophes that can result from illness, disability or death. To compensate for tax code limitations on compensation that can be deferred under the Corporation's tax-qualified Employees' Savings and Profit-Sharing Plan (the 401(k) Plan ), eligible Executive Officers are permitted to defer additional amounts of salary and incentive compensation (on a selective basis) under the Corporation's Executive Deferred Compensation Plan for Employees (the Deferred Compensation Plan ). Amounts so deferred are credited to bookkeeping

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accounts, and are subsequently credited with earnings or losses mirroring the performance of the investment options available under the 401(k) Plan. The Deferred Compensation Plan is an unfunded plan representing the Corporation's future promise to pay benefits credited to notional or bookkeeping accounts for each participant. Executive Officers who have made the maximum permitted pre-tax contributions to the 401(k) Plan and who also defer specified additional amounts of current compensation under the Deferred Compensation Plan become entitled to an

additional matching credit under the Deferred Compensation Plan. This matching credit parallels the matching contribution made by the Corporation for all eligible employees under the 401(k) Plan. The additional match is referred to as a profit sharing match, and is invested in phantom or notional stock units based on the value of LNC Stock. Actual shares of LNC Stock will be issued in settlement of these stock units when amounts credited to the stock unit account are actually paid to the Executive Officers. Before settlement, no voting rights or other rights of any kind associated with ownership of LNC Stock inure to the Executive Officers. As of December 31, 2004, the value of the deferred compensation accounts of the Executive Officers was \$15,827,664. The value of Mr. Boscia's deferred compensation account was \$2,686,625.

On January 13, 2005, at a regularly scheduled meeting of the Committee, the Committee approved a number of changes to the Corporation's executive retirement programs. The purpose of the changes was to maintain competitive retirement benefits for key Executive Officers. At the Committee's request, Towers Perrin assessed the Corporation's overall executive retirement programs and concluded that the benefits provided were below mid-market levels for its Executive Officers in general. The changes generally increase the amount of benefits potentially payable to employees under a variety of qualified and non-qualified plans sponsored by the Corporation, and to four Executive Officers in particular. Previously, the amount of annual incentive bonus that qualified as compensation eligible for purposes of calculating the Corporation's matching contribution credits under the Deferred Compensation Plan, as well as eligible compensation for purposes of calculating benefits under the cash balance formula of the Corporation's retirement plan, was capped, such that only 50% of the bonus in excess of \$100,000 qualified. Effective January 21, 2005, and January 1, 2005, respectively, the cap was removed from those Plans. This change increased the potential retirement benefit for those employees earning a bonus of more than \$100,000 per year.

The executive pension program changes affected the following plans: the 401(k) Plan, the Deferred Compensation Plan, the Lincoln National Corporation Executives Excess Compensation Pension Benefit Plan, Effective January 1, 1989 and the Lincoln National Corporation Employees Supplemental Pension Benefit Plan, Effective January 1, 1983 (both providing nonqualified pension benefits), and the Lincoln National Corporation Employees Retirement Plan (as amended and restated January 1, 2002). In addition, the Salary Continuation Plan for Executives of Lincoln National Corporation and Affiliates, as amended and restated August 1, 2000, was closed to future participants after December 31, 2004. Enhancements were added to this Plan that increased the amount of benefits provided for four (4) Executive Officers, including Messrs. Boscia and Vaughan. These enhancements were considered necessary by the Committee to bring the retirement benefit for these four individuals to market levels. A description of the changes made to those plans, including a detailed description of the enhancements for these four Executive Officers, can be found below on pages 27 to 29.

### **The 2004 Compensation for the CEO**

The Committee has reviewed all elements of the CEO's compensation for 2004, including base salary, annual incentive award bonus, long-term incentive awards, accumulated vested and unvested stock options, the value to the CEO and the cost to the Corporation of all the perquisites and other personal benefits, and the earnings and accumulated payout obligations under the Corporation's supplemental retirement plans and under normal retirement, involuntary severance, and change-in-control scenarios.

Based on its review, the Committee finds the CEO's total compensation (and in the case of the severance and change-in-control scenarios, the potential payouts) in the aggregate to be reasonable and not excessive. All changes made to or affecting the CEO's compensation in 2004 are discussed below, in the sections describing the changes made to the executive pension program (pages 27 to 29).

The Committee considered a compensation analysis based on survey data representing the CEO position in relevant businesses in setting the CEO's base salary. Towers Perrin prepared the analysis, and it was determined by the Committee that the CEO's base salary not be increased. The Committee decided to maintain the CEO's base salary at the same level as the prior year. In determining the CEO's annual incentive compensation and long-term incentive awards for 2004, the Committee reviewed the Corporation's satisfaction of the performance measures stated above and decided to pay the CEO the





annual and long-term incentive awards set forth in Table C.

It should be noted that when the Committee considers changing or re-approving any element of the CEO's, or any other Named Executive Officer's total compensation, the aggregate amounts and mix of all the components are taken into consideration in the Committee's decision making process.

#### **Impact of Tax Deduction Limitations on Executive Compensation**

In general, the Committee believes that compensation paid to the Executive Officers should be deductible to the Corporation. The Committee is responsible for addressing tax deduction limitations that make certain non-performance-based compensation non-deductible to the Corporation (*i.e.*, non-performance-based compensation to certain executives of the Corporation in excess of \$1,000,000 per year). To qualify as performance-based compensation, payments must be based on achieving objective performance goals established under a plan that is administered by a committee of outside directors. In addition, the material terms of the plan must be disclosed to and approved by shareholders and the Committee must certify that the performance goals were achieved before payments may be made.

Currently, the maximum amount for any annual awards payable in cash under the ICP with respect to any fiscal year to any individual Executive Officer (or any participant), including the annual incentive awards, is \$8,000,000. Similarly, the ICP also establishes \$8,000,000 as the maximum amount that may be earned by any participant for any other performance awards during a fiscal year, including the long-term performance awards. In addition, for Executive Officers who are covered employees as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), the Corporation currently limits both the annual incentive and long-term incentive performance awards to the greater of either (a) a maximum amount determined as specified percentages of the Corporation's income from operations (as defined on page 19), or (b) the following maximum dollars limits: CEO - \$8,000,000; CFO and business unit heads - \$7,000,000; CLO and CIO and other Heads of Corporate Staff Units - \$3,500,000. The Committee has discretion to grant less than the maximum awards in each case, but not to grant more than the maximum amount set forth. The ICP also limits individual awards made in the form of, or relating to LNC Stock, to 2,000,000 shares annually.

Although the plans referenced above satisfy the requirements for payments to be deductible, should compliance with the \$1,000,000 limit on deductibility conflict with the Committee's compensation philosophy, the Committee reserves the authority to act in the manner it perceives to be in the best interests of shareholders, even if such compensation is not deductible.

#### **Conclusion**

Executive compensation is designed to be linked to, and commensurate with, the Corporation's performance, and in line with the Corporation's basic pay for performance philosophy. The Committee believes that the Corporation's performance validates the success of its compensation philosophy and that its executive compensation policies and programs serve the best interests of the Corporation and its shareholders.

J. Patrick Barrett  
Thomas D. Bell, Jr., Chair  
John G. Drosdick  
Michael F. Mee  
Glenn F. Tilton

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Pursuant to SEC rules, the Compensation Committee Report shall not be deemed to be soliciting material or to be filed with the SEC, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporates such information by reference into a document filed with the SEC under the Securities Exchange Act of 1934, as amended, or under the Securities Act of 1933, as amended.

**Compensation Committee Interlocks And Insider Participation**

No member of the Compensation Committee had an interlock reportable under Section 402(j) of Regulation S-K under the Securities Exchange Act of 1934, and no member was an employee, officer or former officer of us or our subsidiaries.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN**

The graph set forth below shows a five-year comparison of the yearly performance of our cumulative total shareholder return (change in the year-end stock price plus reinvested dividends), based on a hypothetical investment of \$100 (invested on December 31, 1999 with dividends reinvested through December 31, 2004), with the S&P 500 Index and the S&P Life/Health Index. Returns of the S&P Life/Health Index have been weighted according to their respective aggregate market capitalization at the beginning of each period shown on the graph.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Lincoln National Corporation	100.00	121.73	128.32	86.14	114.39	136.85
S&P Life/Health Index	100.00	113.83	104.99	87.94	111.73	136.57
S&P 500	100.00	90.90	80.10	62.41	80.30	89.02

There can be no assurance that our stock performance will continue into the future with the same or similar trends depicted in the preceding graph. We will not make or endorse any predictions as to future stock performance.

Pursuant to SEC rules, the Comparison Of Five-Year Cumulative Total Return graph shall not be deemed to be soliciting material or to be filed with the SEC, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporates such information by reference into a document filed with the SEC under the Securities Exchange Act of 1934, as amended, or under the Securities Act of 1933, as amended.

**SUMMARY ANNUAL AND LONG-TERM COMPENSATION**

Our executive compensation program for the fiscal year ended December 31, 2004 consisted primarily of salaries, annual and long-term incentive bonuses, and other compensation. Table C on page 48 contains the Summary Compensation Table, which includes information about our Named Executive

Officers annual and long-term compensation earned for the fiscal years ended December 31, 2004, 2003, and 2002. The Named Executive Officers include:

our CEO, and

our four other most highly compensated Executive Officers (Messrs. Gotta, Dineen, Vaughan and Driscoll) employed on December 31, 2004.

In addition, in 2004, we provided financial planning, tax preparation and personal use of aircraft perquisites to our Named Executive Officers. Under the financial planning and tax preparation program, all officers with a title of executive vice president or above, which includes each Named Executive Officer, were eligible for reimbursement of the costs of utilizing a Lincoln Financial Advisor financial planner to provide financial planning services. The annual reimbursement was equal to 100% of the first \$1,800 of costs, plus 50% of costs above that amount up to a maximum of \$6,000. In addition, the same officer group was eligible to receive up to \$2,700 annually for reimbursement of tax preparation services provided by any fee-for-service, tax preparer, who was a certified public accountant, excluding Ernst & Young, LLP, our independent registered public accounting firm. If the officer does not use the entire tax preparation reimbursement in a year, any remaining amount may be applied to the financial planning reimbursement, but not vice versa.

With respect to each of our Named Executive Officers, the aggregate incremental cost of the perquisites received by each of them did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus of the relevant Named Executive Officer in 2004, 2003 or 2002.

In 2005, the Compensation Committee adopted a policy advising our CEO to use the corporate aircraft for personal travel as well as business, when practical. The policy was adopted due to security concerns and to allow for more efficient travel time so that the chief executive officer can devote more time to our business.

#### **LONG-TERM INCENTIVE PLAN AWARDS**

Table D on page 50 provides information regarding the targets set for, and the estimated future payouts for, the 2004-2006 LTIP cycle established in March of 2004. These awards were made under the terms and provisions of the 2001 ICP.

#### **STOCK OPTION PLANS**

Table E on page 52 provides information on grants of stock options pursuant to the 2001 ICP during fiscal year 2004 to the Named Executive Officers. No stock appreciation rights were granted to the Named Executive Officers during fiscal 2004.

#### **OPTION EXERCISES AND FISCAL YEAR-END VALUES**

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Table F on page 53 provides information with respect to option exercises in fiscal year 2004 and unexercised options to purchase shares of our Common Stock granted to the Named Executive Officers through fiscal year 2004 under our 1986 Stock Option Plan and the 2001 ICP. In addition, Mr. Driscoll's unexercised options include options granted pursuant to the Delaware Investments, U.S., Inc. ( DIUS ) Stock Option Plan ( DIUS Option Plan ). Mr. Driscoll's DIUS options are exercisable for shares of Common Stock of DIUS, our indirect wholly owned subsidiary.

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## RETIREMENT PLAN

Effective January 1, 2002, we changed the benefit plan calculation from a final average pay pension formula to an account-based pension formula, converting the retirement plan to what is commonly referred to as a cash balance plan. In connection with this change, certain transition rules apply. Through December 31, 2011, employees who participated in the retirement plan before January 1, 2002 ( Grandfathered Participants ) will accrue benefits under the transitional rules, and will receive the greater of (a) the benefit generated under the final average pay formula (the Grandfathered Benefit ), or (b) the benefit determined under the cash balance formula. On January 1, 2012, Grandfathered Participants will have their Grandfathered Benefit calculated, and, if that benefit is greater than the benefit determined under the cash balance formula, the difference between their Grandfathered Benefit and their benefit under the cash balance formula will be added to their cash balance account. Thereafter, all benefits will be determined solely under the cash balance formula.

Effective January 1, 2005, we amended the cash balance portion of our retirement plan to include 100% of eligible bonus amounts as compensation for purposes of accruing benefits. Previously, only 50% of eligible bonus amounts over \$100,000 were considered as compensation for accruing benefits under the cash balance formula (bonus amounts are not considered under the final average pay formula).

Further information about the retirement plan is set forth in Table G, Pension Plan Table for 2005 Proxy, on page 54. Table G provides the estimated annual retirement benefit amount that would be payable to Grandfathered Participants, assuming employment until retirement at age 65, under the transitional rules using the final average pay formula. The estimated annual retirement benefit provided in Table G includes amounts payable under the supplemental retirement arrangements discussed below. Mr. Vaughan will retire in April 2005 at the age of 55. None of the other Named Executive Officers who are Grandfathered Participants will reach age 65 on or before December 31, 2011. Mr. Driscoll is not eligible for the retirement plan. Mr. Dineen was hired after December 31, 2001 and is therefore not eligible to have his benefit calculated under the final average pay formula. The remaining three Named Executive Officers would either: (a) retire prior to January 1, 2012 and have their benefit determined under the greater of the final average pay formula, but actuarially reduced for early retirement, or the cash balance formula, or (b) retire on or after January 1, 2012 and have their benefit determined under the cash balance formula. Additional information has been provided following Table G, showing the estimated annual retirement benefit under the cash balance formula, including amounts payable under the supplemental retirement arrangements discussed below, for the four Named Executive Officers. As a result of limitations imposed under the Internal Revenue Code of 1986, as amended, a portion of the benefit amounts described in Table G for the retirement plan may actually be paid under the Supplemental Retirement Plans described immediately below.

## SUPPLEMENTAL RETIREMENT ARRANGEMENTS

In addition to the tax-qualified retirement plan and the Supplemental Retirement Plans described above, we have a third non-qualified pension plan that is designed to provide additional retirement benefits to certain officers, including the Named Executive Officers: the Salary Continuation Plan for Executives of Lincoln National Corporation and Affiliates (the Salary Continuation Plan ). The Supplemental Retirement Plans are plans established to provide pension benefits in excess of those that can be provided under the tax-qualified plan due to the existence of Internal Revenue Code limits.

### *The Salary Continuation Plan for Executives of Lincoln National Corporation and Affiliates*

The Named Executive Officers, with the exception of Mr. Driscoll, have entered into participation agreements under the terms of the Salary Continuation Plan. Each executive participating in the Salary Continuation Plan accrues benefits until the earlier of (a) the date on which our CEO determines that the executive is no longer eligible to participate in the Salary Continuation Plan, or (b) the date on which the executive terminates employment. As a condition for receiving benefits in cases of involuntary termination, we may require the participating executive to enter into an exclusive consulting arrangement with us. Unless waived by the CEO, this exclusive consulting arrangement is effective until the

executive reaches age 65.

Under the Salary Continuation Plan, each participating executive is entitled to receive a monthly benefit upon retirement equal to 2% of his or her final monthly salary ( FMS ), multiplied by his or her years



of participation in the Plan, with the monthly benefit capped at 10% of FMS. Generally, FMS is the monthly base salary at termination; however, if the participating executive terminates employment after age 65, then monthly base salary at age 65 is used. Also, FMS is capped at the greater of \$16,667.00 or the monthly base salary in effect for the participating executive as of December 31, 1991.

Effective January 1, 2005, FMS shall be determined differently for Messrs. Boscia and Vaughan, as well as for two other Executive Officers. For these four participating executives only, FMS shall be calculated as follows, and without operation of the aforementioned cap: 1/12<sup>th</sup> of 100% of base annual salary (in effect at termination of employment), plus (b) 1/12<sup>th</sup> of 100% of the average of the best three consecutive annual incentive bonuses paid in the 60 months immediately preceding the executive's termination or retirement. In addition, effective January 1, 2005, for Mr. Boscia only, the cap on the amount of monthly benefit payable under the Plan will increase from 10% of FMS to 17% of FMS over a five-year period, as follows: his monthly benefit shall be capped at 11.4% of FMS as of January 1, 2005, at 12.8% of FMS as of January 1, 2006, at 14.2% of FMS as of January 1, 2007, at 15.6% of FMS as of January 1, 2008, and at 17.0% of FMS as of January 1, 2009.

As a result of these changes to the Salary Continuation Plan, Mr. Boscia's estimated annual benefit at age 65 would be \$505,750, assuming that he works until age 65, assuming no changes in current base salary, and assuming he receives an annual bonus equal to 250% of current base salary. If these changes had not been made, Mr. Boscia's estimated annual benefit under the Salary Continuation Plan, under the same assumptions, would have been \$28,000. Mr. Boscia's annual benefit at age 65, assuming that he had terminated employment on December 31, 2004, would also have been \$28,000. Mr. Vaughan's annual benefit under the Salary Continuation Plan, assuming an April 30, 2005 retirement date, will be \$56,441 (for immediate commencement), or \$152,214 (for commencement at age 65). If these changes had not been made, Mr. Vaughan's annual benefit under the Salary Continuation Plan, assuming an April 30, 2005 retirement date, would have been \$20,000 (for commencement at age 65).

Benefits are paid in the form of a 120-month certain and life annuity, and reduced for commencement prior to age 65. No benefits are payable if the participating executive voluntarily terminates his or her employment prior to age 55, absent a change in control of us. Benefits are paid if the participating executive's employment terminates within two years of a change in control of us, as defined in the Lincoln National Corporation Executives' Severance Benefit Plan (the Severance Plan, discussed below in the Change-in-Control Arrangements section on page 29). Change in control benefits are paid without reduction (e.g., he/she will be treated as having continued employment with us or one of our affiliates until age 65). The Salary Continuation Plan also provides for certain benefits to be paid to an executive's beneficiary in the event of the executive's death.

### ***The Supplemental Retirement Plans***

The Supplemental Retirement Plans pay benefits that would have been paid under the tax-qualified retirement plan if certain limits did not exist under the Internal Revenue Code of 1986, as amended. If a participant in a Supplemental Retirement Plan (a) is vested in his or her retirement plan benefit, and (b) terminates employment within two years of a change in control, as defined in the Severance Plan (see page 29 of this Proxy), the participant will be deemed to have retired under the retirement plan. Effective January 1, 2005, 100% of eligible bonus is included as compensation for purposes of accruing Supplemental Pension Plan benefits. Previously, only 50% of bonus amounts over \$100,000 were considered as compensation for accruing those benefits.

For the Named Executive Officers who are eligible to receive benefits under the various plans affected by the January 1, 2005 changes, the Chart below illustrates the effect of executive pension program changes on the amount of benefits payable under the retirement plan and Supplemental Retirement Plans:

### Retirement Plan & Supplemental Retirement Plans<sup>1,2</sup>

Name*	Annual Benefit payable at age 65 if termed 12/31/04	Estimated Annual Benefit at age 65 if work until age 65: IF NO CHANGE TO PLAN	Estimated Annual Benefit at age 65 if work until age 65: WITH PLAN CHANGES
<b>Jon Boscia</b>	\$ 290,282	\$ 505,095	\$ 635,648
<b>Rich Vaughan<sup>3</sup></b>	\$ 113,000	N/A	N/A
<b>John Gotta</b>	\$ 72,084	\$ 193,436	\$ 205,039
<b>Bob Dineen</b>	Not vested <sup>4</sup>	\$ 78,526	\$ 111,350

\* Mr. Driscoll is not included in this chart because he is not eligible to participate in the retirement plan and Supplemental Retirement Plans.

#### Notes:

1. These amounts represent benefits calculated using the cash balance formula, except for Mr. Vaughan. These calculations assume that the interest rate used for the cash balance calculation is the 1st Quarter 2005 rate of 4.86%.
2. The base salary and bonus assumptions underlying these calculations remain constant to age 65 - no merit increases are estimated. For Mr. Boscia and Mr. Dineen, the bonus assumption is 250% of base salary; for Mr. Gotta and Mr. Vaughan, the bonus assumed is 150% of base salary.
3. Mr. Vaughan will retire in April 2005. Assuming an April 30, 2005 retirement date, Mr. Vaughan's retirement plan benefit (including benefits paid under the Supplemental Retirement Plans) under the final average pay formula will be \$53,860 annually (for immediate commencement), or \$116,680 annually (for commencement at age 65).
4. Mr. Dineen will become vested on 12/31/06.

#### CHANGE-IN-CONTROL ARRANGEMENTS

Recognizing that an unforeseen change of control is unsettling to our Executive Officers, including the Named Executive Officers, our Board established the Lincoln National Corporation Executives' Severance Benefit Plan (the "Severance Plan") in 1982 (with the current amendment and restatement effective January 10, 2002). The objectives of the Severance Plan are:

To attract and retain qualified executives in the face of an actual or threatened change of control,

To enable such executives to help our Board assess any proposed change of control of us and advise the Board as to whether such proposal is in our best interests, our shareholders, and the policyholders and customers of our affiliates without being unduly influenced by the possibility of employment termination, and

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To demonstrate to those executives our desire to treat them fairly in such circumstances.

All of our participating Executive Officers, including the Named Executive Officers, are eligible to participate in the Severance Plan. In addition, the Committee may designate additional employees as eligible ( Eligible Executives ). Only Eligible Employees who have signed a joinder agreement with us may actually participate in the Severance Plan ( Participating Executives ). Pursuant to the terms and provisions of the Severance Plan (as may be amended at any time, and from time to time), a Participating Executive will be provided severance benefits if, in anticipation of or within three years after our change of control, (i) we or a successor entity terminates the Participating Executive's employment for any reason other than cause, death or disability, or (ii) the Participating Executive terminates employment for good reason (as defined in the Severance Plan), such as a material and adverse change in his or her responsibilities, a reduction in salary or benefits, or relocation.

If the conditions for payment under the Severance Plan are satisfied, the Severance Plan pays benefits based on a multiple of Annual Base Salary and Target Bonus. For purposes of the Severance Plan, Annual Base Salary means the highest annual rate of salary during the 12-month period immediately preceding the date of termination of employment, and Target Bonus means the higher of the target set for annual incentive bonus under the 2001 ICP during the calendar year in which the participating executive was terminated or the target set in the year in which the change in control occurred. The Severance Plan benefits that a Participating Executive would be entitled to, once the conditions for payment under that Plan were satisfied, are as follows:

<b>Chief Executive</b>	<b>3 times the Annual</b>	<b>Plus</b>	<b>3 times the Target</b>
<b>Officer</b>	<b>Base Salary</b>		<b>Bonus</b>
<b>All Other</b>	<b>2 times the Annual</b>	<b>Plus</b>	<b>2 times the Target</b>
<b>Participating</b>	<b>Base Salary</b>		<b>Bonus</b>
<b>Executives</b>			

In addition, payment of the above benefits to a Participating Executive would also trigger the payment of or entitlement to the following additional benefits:

Reimbursement of COBRA premiums paid by the Participating Executive for the continuation of coverage under our welfare benefit plans;

For retiree medical and dental coverage, additional credited service equal to the period that severance pay would be payable to the Participating Executive under our broad-based employees' severance plan;

100% vesting of all excess benefit plans and supplemental retirement plans, with additional years of service credited for benefit accrual purposes, as follows: three years for the CEO, two years for all other Participating Executives;

Payment of annual and long-term incentive plan awards, with each payment pro-rated to reflect the date termination occurred during the performance period in progress;

Immediate and 100% vesting of restricted stock and stock options; and

Reimbursement of the cost of outplacement services, up to a maximum of 15% of the Participating Executive's highest rate of annual base salary during the 12-month period immediately preceding the date of termination of employment.

Any Participating Executive receiving a benefit under the Severance Plan may also be entitled to an after-tax payment (a Gross-Up) to cover any excise tax on amounts deemed to be excess parachute payments under Section 280G of the Internal Revenue Code of 1986, as amended (Section 280G). The Gross-Up would be a lump sum payment in an amount sufficient, after the payment of all taxes on the lump-sum payment itself, to pay the excise tax (and related assessments, if any) applicable to the Participating Executive. Plan benefits are automatically reduced to the Section 280G limit if they exceed that limit by no more than (10) percent. Any Participating Executive would also be entitled to reimbursement by us for legal fees and expenses incurred by such Executive seeking enforcement of our obligations under the Severance Plan, unless a court determines that the position taken by the Participating Executive was frivolous or in bad faith. The Severance Plan supplements and does not supersede other plans, contracts of employment, or other arrangements which the Participating Executives may have with us or our affiliates.

**EMPLOYMENT CONTRACTS**

We have no employment agreement with any Named Executive Officer.

## Related Party Transactions

During 2004, Jude Driscoll, President and CEO of Lincoln National Investment Companies and Delaware Management Holdings, Inc., had a secured loan outstanding to one of our subsidiaries. The largest aggregate amount outstanding during 2004 was \$539,776. Interest on the loan accrued at a compound rate of 6% per year. The loan provided that if Mr. Driscoll remained in our employ until January 31, 2004, the outstanding loan amount would automatically be reduced to \$10,000 on that date. Also in accordance with the loan agreement, our subsidiary reimbursed Mr. Driscoll \$417,479 for the payment of federal and state taxes as a result of loan forgiveness. Mr. Driscoll repaid the remaining balance of his loan in March 2005. The loan was granted to Mr. Driscoll in January 2001 in connection with his starting employment with one of our subsidiaries. The loan was granted so that Mr. Driscoll could repay a loan to his prior employer under his prior employer's stock purchase loan program. The terms of the loan were never amended, and the loan was grandfathered under Section 402 of the Sarbanes-Oxley Act of 2002.

## Compensation Of Directors

### *Compensation Philosophy*

The Board considers a variety of information compiled by compensation analysts when determining the levels and types of compensation to be paid to our Non-Employee Directors. Of particular relevance, the Board endorses each of the six Best Practices recommended in the Report of the Blue Ribbon Commission on Director Compensation of the National Association of Corporate Directors. Consistent with those practices, the Board adheres to the following guidelines in establishing Non-Employee Director compensation:

A substantial portion of each Non-Employee Director's compensation is paid in shares of our Common Stock or stock units based on our Common Stock;

In order to avoid the appearance of employee-like tenure or compromised independence, our Directors are generally not eligible for defined benefit pensions; and

Effective January 1, 2005, Non-Employee Directors are expected to own shares of our Common Stock, or stock units based on our Common Stock, at least equal in value to 3 times the cash portion of their annual retainer (3 x \$80,000) within five years of first being elected.

On March 11, 2004, the Board approved a new director compensation program. Deferred stock units are a key element of the program, and we pay them under the Lincoln National Corporation Deferred Compensation Plan for Non-Employee Directors, which became effective July 1, 2004 ( Directors' Deferred Compensation Plan ). The Directors' Deferred Compensation Plan was approved by shareholders at the Annual Meeting on May 13, 2004. In making its decision to change the compensation paid to our Non-Employee Directors, the Board considered various market data comparing director compensation paid by similar companies to compensation paid to our Non-Employee Directors, and the discussions and recommendations as to the appropriate types and levels of director compensation presented by Towers Perrin.

As a result of the approval by shareholders of the Directors' Deferred Compensation Plan, we changed our Non-Employee Directors' compensation arrangements effective July 1, 2004. Prior to that date, our Non-Employee Directors could have received total annual compensation of up to approximately \$151,508 depending on the number of Board and Committee meetings attended, excluding any fees received for holding the position of Committee Chair or Lead Director. Prior to July 1, 2004, total annual compensation included:

an annual retainer consisting of \$18,000 in cash and \$37,000 in restricted stock;

stock compensation consisting of \$3,333 (annualized) in restricted stock (\$10,000 re-election bonus granted every three years = \$3,333) and annual grant of 3,000 stock options with an estimated value of \$38,310 (based on a March 11, 2004 Black-Scholes value);

meeting fees of \$1,100 for each Board meeting (if all six Board meetings in 2004 were attended, this would have equaled \$6,600) and \$1,100 for each Committee meeting (if an Audit Committee member attended all meetings in 2004, this would have equaled \$1,100 x 10 = \$11,000); and

an average cash bonus award of \$20,954 and an average service award of \$16,311 under the Directors' Value Sharing Plan (as described further below).

Under the current Non-Employee Directors' compensation program effective July 1, 2004, our Non-Employee Directors receive total annual compensation of \$160,000, excluding any fees received for holding the position of a Committee Chair or Lead Director. Current total compensation consists of an annual retainer of \$80,000 in cash and \$80,000 in deferred stock units, which are credited to each Non-Employee Director's account under the Directors' Deferred Compensation Plan. Directors may also elect to defer the cash component of their annual retainer into various investment options, including the Lincoln National Corporation stock unit account option, available under the Directors' Deferred Compensation Plan. Under the current program, no Board or Committee meeting fees are paid.

In addition, under the prior arrangement, Committee Chairs and the Lead Director each received an annual retainer of \$5,000. Currently, Committee Chairs receive an annual retainer of \$5,000 and the Lead Director receives an annual retainer of \$25,000.

Further, we reimburse Non-Employee Directors for reasonable expenses that they incur to attend Board and committee meetings. The Corporate Governance Committee has discretion to recommend to the Board additional compensation for meetings in addition to the Board's or a Committee's regularly scheduled meetings. Finally, Non-Employee Directors who are directors of Lincoln Life & Annuity Company of New York receive an annual retainer of \$15,000 and \$1,100 for each board and committee meeting that they attend, plus we reimburse them for reasonable expenses that they incur to attend those meetings.

#### *Directors' Deferred Compensation Plan*

The Directors' Deferred Compensation Plan consolidated all of the various payments being made under multiple plans pre-July 1, 2004 into one payment—a single annual retainer in the amount of \$160,000. Half of the annual retainer (\$80,000) is automatically deferred into each Non-Employee Director's stock unit account under the Directors' Deferred Compensation Plan. At the election of the Non-Employee Director, any or all of the remaining half of the annual retainer (the \$80,000 cash portion) may be deferred in accordance with the terms and provisions of the Deferred Compensation Plan, with such amounts (and any earnings, losses, and expenses charged or accounted thereto) payable upon the Non-Employee Director's retirement or resignation from the Board. The Non-Employee Director must direct any of these deferred amounts into various phantom investment options. Amounts notionally invested into phantom investment options are credited with earnings or losses as if the deferred amounts had been actually invested in either our Common Stock (payable only in stock), or in any of the investment options also

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available under the Corporation's Employee's Savings and Profit-Sharing Plan.

Any obligations incurred under the Directors' Deferred Compensation Plan shall remain unfunded. Amounts credited to the various accounts are not held in trust and are therefore not protected against our insolvency. The benefits of individual Non-Employee Directors may therefore become subject to claims of our general creditors. In the event of insolvency, the rights of any Non-Employee Director (as



well as the rights of his or her beneficiary or estate) to claim amounts under the Plan are solely those of an unsecured general creditor. At the time that a Non-Employee Director ceases service on the Board, amounts deferred under the Directors' Deferred Compensation Plan must begin to be paid either in a lump sum or in annual installments over a period of up to twenty years. Amounts deferred into stock units will be paid out in shares of our Common Stock, with any fractional share being settled in cash. Any amounts not yet disbursed to a participant will continue to be credited with earnings under the relevant investment measures until such time as those amounts are paid in full.

#### ***Bonus Awards and Service Awards under the DVSP***

Prior to July 1, 2004, Non-Employee Directors participated in the Directors' Value Sharing Plan (the DVSP). The DVSP effectively aligned the criteria used for director's compensation with the criteria applicable to the compensation of our Executive Officers by paying Non-Employee Directors' Bonus Awards that mirrored the long-term incentive cycles, target and measures under the 2001 ICP. One three-year (2001-2003) performance cycle has already been completed, and an award of \$26,949 based upon the performance goals achieved during that cycle was paid out in March 2004 to our Non-Employee Directors who served on the Board during the entire three-year performance cycle. Four of our Non-Employee Directors - Mr. Avery (\$14,984), Ms. Britell (\$23,958), Mr. Mee (\$21,721) and Mr. Tilton (\$16,466) received pro-rated awards based on their length of Board service during the three-year performance cycle. In addition, two additional three-year, (2002-2004) and (2003-2005), overlapping long-term performance cycles were previously established. The 2002-2004 and 2003-2005 cycles also mirror the cycles, targets and measures established under the long-term incentive award programs for our Executive Officers.

However, as part of the changes approved by the Board and our shareholders, the DVSP was terminated effective as of July 1, 2004. Non-Employee Directors who are eligible to receive benefits under the Directors' Deferred Compensation Plan described above are no longer eligible to receive award payments (Bonus Awards or Service Awards) under the DVSP, including awards under the 2002-2004 or 2003-2005 cycles. Dividend Equivalent Payments will continue to be credited with respect to all outstanding awards. There are two Non-Employee Directors who retired prior to July 1, 2004, and who are therefore not eligible to receive awards under the Directors' Deferred Compensation Plan. These two retired Directors will receive pro-rated Service Awards based upon the Board's certification of the achievement of the performance goals established for 2002-2004 and 2003-2005 cycles in progress at the time of such Director's retirement.

Prior to July 1, 2004, except as discussed below under the Retirement Benefits section, each Non-Employee Director also received a quarterly Service Award in the form of stock units (up to a maximum of 40 Service Awards) under the DVSP. As with Bonus Awards, Service Awards were credited to a non-qualified deferred compensation account established for each Non-Employee Director under the DVSP. Service Awards were based upon a formula that took into account the Non-Employee Director's age upon election to the Board, the annual retainer and an assumed minimum return on Common Stock. The last Service Award under the DVSP was credited at the end of the second quarter of 2004 (June 30, 2004).

#### ***Retirement Benefits***

Before 1996, our Directors were allowed to participate in our retirement plan. All Non-Employee Directors who were directors on January 1, 1996, could choose either to (a) have their benefits under the retirement plan converted to deferred stock units and credited as Service Awards under the DVSP, or (b) continue participating in the retirement plan (described below). For any Non-Employee Director who elected to receive Service Awards under the DVSP, and who dies prior to retirement from the Board, the value of his or her Service Award account will not be less than the lump sum death benefit that would have been payable under the retirement plan.

Only one of our Directors, Ms. Ruckleshaus, elected to continue participating in the retirement plan. The annual benefit payable to Ms. Ruckleshaus under the retirement plan will be calculated as 0.833% of her annual retainer during the last year she is a Director, multiplied by the number of months she has served on the Board up to a maximum of 120 months. Ms. Ruckleshaus will be credited with 120 months. Ms.

Ruckelshaus may elect to receive her retirement benefit in either a single lump sum or in

monthly payments beginning at the later of the date she retires from the Board or age 65. If Ms. Ruckleshaus dies prior to the date her retirement benefits begin, a death benefit will be paid to her beneficiary.

In May of 2004, in anticipation of the changes to be made to the directors compensation program, which would significantly increase the amount of Non-Employee Director compensation expressed as an annual retainer (from \$55,000 to \$160,000), the Board decided to change the Retirement Plan formula for the sole Non-Employee Director continuing to participate in that Plan. For that Director, \$55,000 will continue to be used as the base amount in the calculation. This base amount will be increased based upon increases in the aggregate Non-Employee Director compensation. For 2004, for example, we made an 8.39% increase in the base amount used to calculate the Retirement Plan benefit, or approximately \$59,615.

***Other Benefits***

We provide financial planning services to Non-Employee Directors with a value not to exceed \$20,000 for an initial financial plan, and \$10,000 for annual updates. A Lincoln Financial Advisors financial planner must provide the financial planning services to be eligible for reimbursement. We also allow non-employee directors to participate in certain of our health and welfare benefits including our self-insured medical and dental plans as well as life insurance and accidental death and dismemberment coverages. A participating non-employee director is responsible for all of the premiums for the coverage.

## ITEM 2

### RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On March 9, 2005, our Audit Committee appointed Ernst & Young LLP, as our independent registered public accounting firm, for the year ending December 31, 2005. We have engaged this firm and its predecessors in this capacity continuously since 1968. Although not required, we request that you ratify this appointment. If you do not ratify this appointment, the Audit Committee may reconsider its appointment. Even if you do ratify this appointment, the Audit Committee is empowered to terminate Ernst & Young LLP and select and retain another independent registered public accounting firms at any time during the year.

Representatives of Ernst & Young LLP will be present at the Annual Meeting. They will be given the opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions relating to the audit of our audited consolidated financial statements for the year ended December 31, 2004.

**The Board of Directors recommends a vote FOR the ratification of Ernst & Young LLP, as our independent registered public accounting firm for 2005.**

### Independent Registered Public Accounting Firm Fees and Services

Below are fees that were incurred by Ernst & Young LLP, our independent registered public accounting firm, for fiscal years 2004 and 2003 for professional services rendered as well as the related percentage of total fees that each category comprises.

	Fiscal Year Ended		Fiscal Year Ended	
	December 31, 2004	% of total fees	December 31, 2003	% of total fees
Audit Fees	\$ 8,439,230	84.4%	\$ 5,898,334	67.7%
Audit-Related Fees	\$ 1,515,984	15.2%	\$ 2,766,497	31.7%
Tax Fees	\$ 44,770	0.4%	\$ 43,818	0.5%
All Other Fees			\$ 10,000	0.1%

<b>TOTAL FEES:</b>	\$ 9,999,984	100.0%	\$ 8,718,649	100%
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Audit Fees

Fees for audit services include fees associated with the annual audit, the reviews of our interim financial statements included in quarterly reports on Form 10-Q, accounting consultations directly associated with the audit, and services normally provided in connection with statutory and regulatory filings. In addition, for 2004, the increase from 2003 primarily reflects incremental costs to support the new annual attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-Related Fees

Audit-related services principally include employee benefit plan audits, service auditor reports on internal controls, due diligence procedures in connection with acquisitions and dispositions, reviews of registration statements and prospectuses and accounting consultations not directly associated with the audit or quarterly reviews. During 2003, audit-related services also included assistance provided to us

related to the documentation and ongoing implementation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

#### Tax Fees

Fees for tax services include tax compliance and advisory services.

#### All Other Fees

Fees for all other services not included above consisted of fees for Ernst & Young online accounting research tool in 2003.

### **Audit Committee Pre-Approval Policy**

In accordance with its charter, the Audit Committee's policy is to pre-approve services provided by Ernst & Young LLP. These pre-approval procedures are set forth in Exhibit 7 hereto. During the year ended December 31, 2004, all services provided by Ernst & Young LLP were pre-approved by the Audit Committee in accordance with this policy.

### **Audit Committee Report**

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended December 31, 2004. The Audit Committee has also discussed with the Lincoln National Corporation's independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees. Additionally, the Audit Committee has received the written disclosures and representations from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the independent auditors the independent auditors' independence.

Based upon the review and discussions referred to in this report, the Audit Committee recommended to the Board that the audited financial statements for the fiscal year ended December 31, 2004 be included in the Lincoln National Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the SEC.

William J. Avery  
Jenne K. Britell, Ph.D.  
M. Leanne Lachman, Chair  
Michael F. Mee  
Glenn F. Tilton

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Pursuant to SEC rules, the Audit Committee Report shall not be deemed to be soliciting material or to be filed with the SEC, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporates such information by reference into a document filed with the SEC under the Securities Exchange Act of 1934, as amended, or under the Securities Act of 1933, as amended.

**ITEM 3**  
**APPROVAL**  
**OF**  
**THE LINCOLN NATIONAL CORPORATION**  
**AMENDED AND RESTATED**  
**INCENTIVE COMPENSATION PLAN**

We are asking shareholders to approve an amendment and restatement to the Lincoln National Corporation Incentive Compensation Plan, as amended and restated on March 8, 2001 (the Amended and Restated Plan ). In 1997, our Board of Directors adopted, and our shareholders approved, the 1997 Incentive Compensation Plan (the 1997 ICP ). On April 10, 2001, our shareholders approved an amendment and restatement to the 1997 ICP. The plan as amended and restated in 2001 will be referred to below as the 2001 ICP. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code ), requires that shareholders re-approve the Amended and Restated Plan at least once every five years to satisfy the conditions necessary for us to exclude awards under the plan from the \$1 million limit on our federal income tax deductions for compensation payable to certain Executive Officers.

**Purpose of the Amendment and Restatement**

The Amended and Restated Plan does not increase the total number of shares of Common Stock available for issuance under the Plan. Under the 2001 ICP, the total number of shares of our Common Stock initially reserved and available for delivery to participants in connection with Awards (as defined below), including shares relating to awards previously granted, was 32,226,512. As of December 31, 2004, 8,138,300 of these shares remained available for issuance (the Remaining Limit ). In addition, under the terms of the 2001 ICP, the number of shares that could be used to settle Awards other than stock options and stock appreciation rights ( SARs ) is limited to 5,889,512 (the Sub-limit ). At December 31, 2004, approximately 774,909 shares remained available for these purposes. Note, in general, the Remaining Limit will fluctuate as new Awards are granted and as outstanding Awards expire or are cancelled or forfeited. For a further discussion of share counting under the Amended and Restated Plan, see Shares Subject to the Amended and Restated Plan; Annual Per-Person Limitations below.

The Amended and Restated Plan seeks to remove the Sub-limit on the number of shares that can be used to settle awards other than stock options and SARs, and to instead, count shares issued pursuant to Awards, other than stock options and SARs, granted on or after the date shareholders approve the Amended and Restated Plan against the Remaining Limit at a 3.25-to-1 ratio. For example, if the Amended and Restated Plan is approved by shareholders and we issue 100 shares of Common Stock to settle a long-term incentive award granted after the shareholder approval date, we would reduce the Remaining Limit under the Amended and Restated Plan by 325 shares. We believe that this would give us the flexibility to issue Common Stock in payment of long-term incentive awards conditioned on the satisfaction of performance goals. We believe that granting awards conditioned on the satisfaction of performance goals better aligns the interests of grantees with those of shareholders, namely, the creation of long-term shareholder value through strong corporate performance. In addition, shares counted under this 3.25-to-1 ratio include shares used settle our deferred compensation obligations and restricted stock arising or awarded on or after the date shareholders approve the Amended and Restated Plan.



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The Amended and Restated Plan also amends share counting provision of the 2001 ICP, so that, after the date shareholders approve the Amended and Restated Plan, any shares a participant surrenders to pay the exercise price of an award and those which we withhold to satisfy a tax withholding obligation will not be available for future Awards under the Amended and Restated Plan.

On January 13, 2005, the Compensation Committee of our Board of Directors set the performance measures for the 2005-2007 long-term incentive plan cycle. The performance measures for our Executive Officers are total shareholder return, growth in income from operations per share and return on equity. On March 10, 2005, the Compensation Committee made the long-term incentive

awards to eligible employees, which are set at a targeted dollar amount. In addition to potentially receiving the target award for targeted performance, a grantee may receive 25% of the target award for corporate performance at the threshold measures or twice the target award for performance at the maximum target performance measures. If none of the threshold measures is satisfied, no payout will occur. If less than three of the performance measures equals or exceeds the threshold measures, a payout at less than the threshold award may occur. Certain officers, including our Executive Officers, were provided the option to receive cash, our stock or stock options, or a combination thereof upon satisfaction of the performance goals. For more information on the manner in which the various forms of payout are valued, see footnote 1 to Table D on page 50 of this Proxy Statement. Other grantees will receive only stock upon satisfaction of the performance goals. Consequently, if the maximum numbers of share awards that could be earned by exceeding the performance targets for awards during the 2005-2007 performance cycle were in fact earned, the shares needed for such payments would exceed the shares remaining available under the Sub-limit to settle awards other than options or stock appreciation rights. This will hinder our ability to reward employees in shares for exceptional performance. In recognition of this 2001 ICP limitation, awards granted with respect to the 2005-2007 long-term incentive award performance cycle and denominated in shares were conditioned on there being a sufficient number of shares available under the Amended and Restated Plan to satisfy such awards. Similarly, the Sub-limit restricts our ability to draw against the full number of shares previously authorized to settle deferred compensation that executives have chosen to have measured as if it were invested in shares of Common Stock.

If approved by shareholders, this Amended and Restated Plan would increase our flexibility in utilizing shares available for Awards under the Plan. Accordingly, it would allow us to settle in shares awards granted with respect to the 2005-2007 long-term incentive award performance cycle and denominated in shares as well as to payout shares for deferred compensation that executives have chosen to have measured as if invested in our Common Stock. If the Amended and Restated Plan is not approved, the 2001 ICP will continue to operate as in effect before the amendment and restatement, including being subject to the limitations contained in the 2001 ICP, and certain officers will be given the opportunity to revise their payout elections to receive their payouts in cash or stock options, while grantees who receive their payouts in stock only will have their awards cancelled and replaced with such other Awards as the Compensation Committee shall determine. Further, pursuant to the Section 162(m) requirements, failure to approve the Amended and Restated Plan also would result in our being precluded from making certain performance-based awards after the 2006 Annual Meeting of Shareholders, unless shareholders approve the 2001 ICP at the 2006 Annual Meeting of Shareholders.

The following is a brief description of the material features of the Amended and Restated Plan. This description is qualified in its entirety by reference to the full text of the Amended and Restated Plan, which is attached hereto as Exhibit 8.

### **Purpose of the Plan**

Our Board of Directors believes that attracting and retaining key employees is essential to our growth and success. In addition, the Board believes that our long-term success is enhanced by a competitive and comprehensive compensation program, which may include tailored incentives designed to motivate and reward such persons for outstanding service, including awards that link compensation to applicable measures of our performance and the creation of shareholder value. These awards will enable us to attract and retain key employees and enable such persons to acquire and/or increase their proprietary interest in us and thereby align their interests with the interests of our shareholders. In addition, the Board has concluded that the Compensation Committee should be given sufficient flexibility to provide for annual and long-term incentive awards contingent on performance.

**Types of Awards.** The terms of the Amended and Restated Plan provide for grants of stock options, stock appreciation rights ( SARs ), restricted stock, deferred stock units, other stock-related awards, and performance or annual incentive awards that may be settled in cash, stock, or other property ( Awards ).

**Shares Subject to the Amended and Restated Plan; Annual Per-Person Limitations.** As stated above, under the Amended and Restated Plan, the total number of shares of our Common Stock reserved and available for delivery to participants in connection with Awards is 32,226,512. However, the Remaining Limit is available as of December 31, 2004. Shares that may be issued in payment of Awards,



*other than* Options and SARs, granted on or after the date shareholders approve the Amended and Restated Plan shall be counted against the Remaining Limit at a ratio of 3.25-to-1. The total number of shares of Common Stock with respect to which incentive stock options ( ISOs ), none of which are currently outstanding, may be granted shall not exceed 2,000,000. As stated above, the Remaining Limit will vary at any point in time due to new Award grants and expirations, forfeitures and cancellations of outstanding Awards as discussed in the following paragraph. Any shares of Common Stock delivered under the Amended and Restated Plan shall consist of authorized and unissued shares.

The Amended and Restated Plan contains rules to permit all awards to be properly counted and not counted twice. These rules will apply to shares previously authorized under any other plan at the time they become subject to the Amended and Restated Plan. Forfeited, terminated or expired awards of shares, as well as awards settled in cash without issuing any shares, will become available for future awards. With respect to stock settled SARS, the full issuance of shares to settle such Awards will count against shares available under the Amended and Restated Plan.

In addition, the Amended and Restated Plan imposes individual limitations on the amount of certain Awards in order to comply with Section 162(m) of the Code. Under these limitations, during any fiscal year the number of options, SARs, shares of restricted stock, units of deferred stock, shares of Common Stock issued as a bonus or in lieu of other obligations, and other stock-based Awards granted to any one participant shall not exceed 2,000,000 shares for each type of such Award, subject to adjustment in certain circumstances. The maximum amount that may be earned as an annual incentive award or other cash Award (payable currently or on a deferred basis) in any fiscal year by any one participant is \$8,000,000, and the maximum amount that may be earned as a performance award or other cash Award (payable currently or on a deferred basis) in respect of a performance period by any one participant is \$8,000,000.

The Committee is authorized to adjust the number and kind of shares subject to the aggregate share limitations and annual limitations under the Amended and Restated Plan and subject to outstanding Awards (including adjustments to exercise prices and number of shares of options and other affected terms of Awards) in the event that a dividend or other distribution (whether in cash, shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event affects the Common Stock so that an adjustment is appropriate. The Committee is also authorized to adjust performance conditions and other terms of Awards in response to these kinds of events or in response to changes in applicable laws, regulations, or accounting principles.

**Eligibility.** Our or our subsidiaries executive officers and other officers and employees, agents and brokers, including any such person who may also be one of our directors, are eligible to be granted Awards under the Amended and Restated Plan. It is anticipated that approximately 1,500 persons are eligible to receive Awards under the Amended and Restated Plan.

**Administration.** The Amended and Restated Plan will be administered by the Committee. Subject to the terms and conditions of the Amended and Restated Plan, the Committee is authorized to interpret the provisions of the plan, select participants, determine the type and number of Awards to be granted and the number of shares of Common Stock to which Awards will relate, specify times at which Awards will be exercisable or settleable (including performance conditions that may be required as a condition thereof), set other terms and conditions of such Awards, prescribe forms of Award agreements, adopt, amend and rescind rules and regulations relating to the Amended and Restated Plan, and make all other determinations that may be necessary or advisable for the administration of the Amended and Restated Plan. The Committee may, in its discretion, convert any Award or the value of any Award under the Amended and Restated Plan, subject to applicable laws and regulations, into Deferred Stock Units which will be administered under the Deferred Compensation Plan. The Amended and Restated Plan provides that Committee members shall not be personally liable, and shall be fully indemnified, in connection with any action, determination, or interpretation taken or made in good faith under the Amended and Restated Plan.

**Stock Options and SARs.** The Committee is authorized to grant stock options, including both ISOs that can result in potentially favorable tax treatment to the participant and non-qualified stock options (*i.e.*, options not qualifying as ISOs), and SARs entitling the participant to receive the excess of the Fair Market



Value of a share of Common Stock on the date of exercise over the grant price of the SAR. The exercise price per share subject to an option and the grant price of a SAR is determined by the Committee, but must not be less than the Fair Market Value of a share of Common Stock on the date of grant. Under the Amended and Restated Plan, unless otherwise determined by the Committee, the Fair Market Value of Stock is the average of the highest and lowest prices of a share of Common Stock, as quoted on the composite transactions table on the NYSE, on the last trading day prior to the date on which the determination of Fair Market Value is being made. On March 10, 2005, the fair market value of Common Stock (as determined in the manner set forth in the Amended and Restated Plan) was \$46.77 per share.

The maximum term of each option or SAR, the times at which each option or SAR will be exercisable, and provisions requiring forfeiture of unexercised options or SARs at or following termination of employment generally are fixed by the Committee, except no option or SAR may have a term exceeding ten years. Options may be exercised by payment of the exercise price in cash, Common Stock, outstanding Awards, or other property (possibly including notes or obligations to make payment on a deferred basis) having a Fair Market Value equal to the exercise price, as the Committee may determine from time to time. Methods of exercise and settlement and other terms of the SARs are determined by the Committee. To date, we have only granted SARs settleable exclusively in cash. The Committee may include a provision in an option permitting the grant of a new option when payment of the exercise price of an option is made in shares of Common Stock. However, as discussed below, the exercise price of an option may not be reduced (except as a result of a change in our capitalization) without shareholder approval. See Other Terms of Awards; No Repricing, below.

The table below sets forth, at March 10, 2005, the number of options (excluding those that may be granted in connection with long-term performance awards) outstanding under the 2001 ICP to the following persons:

<u>Name</u>	<u># of Options Outstanding</u>
Jon A. Boscia	918,535
John H. Gotta	209,500
Robert W. Dineen	-0-
Richard C. Vaughan	315,000
Jude T. Driscoll	36,000
All current Executive Officers as a group	2,017,399
All employees, excluding Executive Officers, as a group	7,624,188

**Restricted Stock and Deferred Stock Units.** The Committee is authorized to grant restricted stock and deferred stock units. Restricted stock is a grant of Common Stock which may not be sold or disposed of, and which may be forfeited in the event of certain terminations of employment and/or failure to meet certain performance requirements, prior to the end of a restricted period specified by the Committee. A participant granted restricted stock generally has all of the rights of a shareholder, including the right to vote the shares and to receive dividends thereon, unless otherwise determined by the Committee. An Award of deferred stock units is credited to a bookkeeping reserve account under the Deferred Compensation Plan. Such an Award confers upon a participant the right to receive shares at the end of a specified deferral period, subject to possible forfeiture of the Award in the event of certain terminations of employment and/or failure to meet certain performance requirements prior to the end of a specified restricted period (which restricted period need not extend for the entire duration of the deferral period). Prior to settlement, an Award of deferred stock units carries no voting or dividend rights or other rights associated with share ownership, although dividend equivalents may be granted, as discussed below.

**Bonus Stock and Awards in Lieu of Cash Obligations.** The Committee is authorized to grant shares as a bonus free of restrictions, or to grant shares or other Awards in lieu of obligations to pay cash under other plans or compensatory arrangements, subject to such terms as the Committee may specify.

**Other Stock-Based Awards.** The Amended and Restated Plan authorizes the Committee to grant Awards that are denominated or payable in, valued by reference to, or otherwise based on or related to shares. Such Awards might include convertible or exchangeable debt securities, other

rights convertible

or exchangeable into shares, purchase rights for shares, Awards with value and payment contingent upon our performance or any other factors designated by the Committee, and Awards valued by reference to the book value of shares or the value of securities of or the performance of specified subsidiaries. The Committee determines the terms and conditions of such Awards, including consideration to be paid to exercise Awards in the nature of purchase rights, the period during which Awards will be outstanding, and forfeiture conditions and restrictions on Awards.

**Performance Awards, Including Annual Incentive Awards.** The right of a participant to exercise or receive a grant or settlement of an Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. In addition, the Amended and Restated Plan authorizes specific annual incentive awards, which represent a conditional right to receive cash, shares or other Awards upon achievement of pre-established performance goals during a specified one-year period. Performance awards and annual incentive awards granted to persons the Committee expects will, for the year in which a deduction arises, be among the Named Executive Officers, will, if so intended by the Committee, be subject to provisions that should qualify such Awards as performance-based compensation not subject to the limitation on tax deductibility by us under Code Section 162(m).

The performance goals to be achieved as a condition of payment or settlement of a performance award or annual incentive award will consist of (i) one or more business criteria and (ii) a targeted level or levels of performance with respect to each such business criterion. In the case of performance awards intended to meet the requirements of Code Section 162(m), the business criteria used must be one of those specified in the Amended and Restated Plan, although for other participants the Committee may specify any other criteria. The business criteria specified in the Amended and Restated Plan are, as defined by the Committee: (1) earnings per share; (2) revenues; (3) cash flow; (4) cash flow return on investment; (5) return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin; (8) net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; operating earnings; income from operations; (9) total shareholder return; (10) any of the above goals as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies; and (11) any criteria comparable to those listed above that shall be approved by the Committee.

In granting annual incentive or performance awards, the Committee may establish unfunded award pools, the amounts of which will be based upon the achievement of a performance goal or goals using one or more of the business criteria described in the preceding paragraph. During the first 90 days of a fiscal year or performance period, the Committee will determine who will potentially receive annual incentive or performance awards for that fiscal year or performance period, either out of the pool or otherwise. After the end of each fiscal year or performance period, the Committee will determine the amount, if any, of the pool, the maximum amount of potential annual incentive or performance awards payable to each participant in the pool, and the amount of any potential annual incentive or performance award otherwise payable to a participant. The Committee may, in its discretion, determine that the amount payable as an annual incentive or performance award will be increased or reduced from the amount of any potential Award, but may not exercise discretion to increase any such amount intended to qualify as performance-based compensation under Code Section 162(m).

Subject to the requirements of the Amended and Restated Plan, the Committee will determine other performance award and annual incentive award terms, including the required levels of performance with respect to the business criteria, the corresponding amounts payable upon achievement of such levels of performance, termination and forfeiture provisions, and the form of settlement. Because of the discretionary nature of the awards that may be made under the Amended and Restated Plan, the benefits available under the plan are not readily determinable. However, the Awards that may be made under the Amended and Restated Plan are subject to the limitations discussed above under Shares Subject to the Amended and Restated Plan; Annual Per Person Limitations.

**Other Terms of Awards; No Repricing.** In general, Awards may be settled in the form of cash, Common Stock, other Awards, or other property, in the discretion of the Committee. The Committee may require or permit participants to defer the settlement of all or part of an Award in accordance with such terms and conditions as the Committee may establish, including payment or crediting of interest or





dividend equivalents on deferred amounts, and the crediting of earnings, gains, and losses based on deemed investment of deferred amounts in specified investment vehicles. The Committee is authorized to place cash, shares, or other property in trusts or make other arrangements to provide for payment of our obligations under the Amended and Restated Plan. The Committee may condition any payment relating to an Award on the withholding of taxes and may provide that a portion of any shares or other property to be distributed will be withheld (or previously acquired shares or other property surrendered by the participant) to satisfy withholding and other tax obligations. Awards granted under the Amended and Restated Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Committee may, in its discretion, permit transfers for estate planning or other purposes.

Awards under the Amended and Restated Plan are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The Committee may, however, grant Awards in exchange for other Awards under the Amended and Restated Plan, awards under our other plans, or other rights to payment from us, and may grant Awards in addition to and in tandem with such other Awards, awards, or rights as well.

Unless the Award agreement specifies otherwise, the Committee may cancel or rescind Awards if the participant fails to comply with certain noncompetition, confidentiality or intellectual property covenants. For instance, Awards may be canceled or rescinded if the participant engages in competitive activity while employed by us or within a specified period following termination of employment. We may, in our discretion, in any individual case provide for waiver in whole or in part of compliance with the noncompetition, confidentiality or intellectual property covenants.

Notwithstanding any other provision of the Amended and Restated Plan, no option that has been granted under the Amended and Restated Plan may be repriced, replaced or regranted through cancellation, or otherwise modified without shareholder approval (except in connection with adjustments permitted under the Plan), if the effect would be to reduce the exercise price for the shares underlying the option.

**Acceleration of Vesting.** The Committee may, in its discretion, accelerate the exercisability, the lapsing of restrictions, or the expiration of deferral or vesting periods of any Award, and such accelerated exercisability, lapse, expiration and vesting will occur automatically in the case of a change of control of us, except to the extent otherwise determined by the Committee at the date of grant. In addition, the Committee may provide that the performance goals relating to any performance-based award will be deemed to have been met upon the occurrence of any change of control. Upon the occurrence of a change of control, except to the extent otherwise determined by the Committee at the date of grant, options will become fully vested and exercisable and restrictions on restricted stock and deferred stock units will lapse. Change of Control is defined to include a variety of events, including the acquisition by certain individuals or entities of twenty percent or more of our outstanding Common Stock, significant changes in our board of directors, certain reorganizations, mergers and consolidations involving us, and the sale or disposition of all or substantially all of our consolidated assets.

**Amendment and Termination of the Amended and Restated Plan.** The Board of Directors, or the Committee acting pursuant to authority delegated to it by the Board, may amend, alter, suspend, discontinue, or terminate the Amended and Restated Plan or the Committee's authority to grant Awards without further shareholder approval, except shareholder approval must be obtained for any amendment or alteration if required by law or regulation or under the rules of any stock exchange or automated quotation system on which the shares are then listed or quoted. Shareholder approval will not be deemed to be required under laws or regulations, such as those relating to ISOs, that condition favorable treatment of participants on such approval, although the Board may, in its discretion, seek shareholder approval in any circumstance in which it deems such approval advisable. Thus, shareholder approval will not necessarily be required for amendments that might increase the cost of the Amended and Restated Plan or broaden eligibility. Unless earlier terminated by the Board, the Amended and Restated Plan will terminate at such time as no shares remain available for issuance under the Amended and Restated Plan, and we have no further rights or obligations with respect to outstanding Awards under the Amended and Restated Plan.

**Federal Income Tax Implications of the Amended and Restated Plan.** The following is a brief description of the federal income tax consequences generally arising with respect to Awards under the Amended and Restated Plan.

The grant of an option or SAR will create no tax consequences for the participant or us. A participant will not recognize taxable income upon exercising an ISO (except that the alternative minimum tax may apply). Upon exercising an option other than an ISO, the participant must generally recognize ordinary income equal to the difference between the exercise price and Fair Market Value of the freely transferable and nonforfeitable shares acquired on the date of exercise. Upon exercising a SAR, the participant must generally recognize ordinary income equal to the cash or the Fair Market Value of the freely transferable and nonforfeitable shares received.

Upon a disposition of shares acquired upon exercise of an ISO before the end of the applicable ISO holding periods, the participant must generally recognize ordinary income equal to the lesser of (i) the Fair Market Value of the shares at the date of exercise of the ISO minus the exercise price, or (ii) the amount realized upon the disposition of the ISO shares minus the exercise price. Otherwise, a participant's disposition of shares acquired upon the exercise of an option (including an ISO for which the ISO holding periods are met) or SAR generally will result in short-term or long-term capital gain or loss measured by the difference between the sale price and the participant's tax basis in such shares (the tax basis generally being the exercise price plus any amount previously recognized as ordinary income in connection with the exercise of the option or SAR).

We will generally be entitled to a tax deduction equal to the amount recognized as ordinary income by the participant in connection with an option or SAR. We are generally not entitled to a tax deduction relating to amounts that represent a capital gain to a participant. Accordingly, we will not be entitled to any tax deduction with respect to an ISO if the participant holds the shares for the ISO holding periods prior to disposition of the shares.