BAXTER INTERNATIONAL INC
Form 10-Q
July 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-4448

BAXTER INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-0781620 (I.R.S. Employer Identification No.)
One Baxter Parkway, Deerfield, Illinois (Address of principal executive offices)	60015-4625 (Zip Code)

224-948-2000
(Registrant s telephone number,
including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s Common Stock, par value $1.00 per share, outstanding as of July 25, 2014 was 541,673,382 shares.

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BAXTER INTERNATIONAL INC.

FORM 10-Q

For the quarterly period ended June 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Baxter International Inc.

Condensed Consolidated Statements of Income (unaudited)

(in millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net sales	$ 4,264	$ 3,669	$ 8,215	$ 7,117
Cost of sales	2,223	1,730	4,213	3,422
Gross margin	2,041	1,939	4,002	3,695
Marketing and administrative expenses	998	838	1,918	1,633
Research and development expenses	325	273	638	519
Net interest expense	42	17	85	42
Other expense (income), net	15	68	(9)	65
Income before income taxes	661	743	1,370	1,436
Income tax expense	141	153	294	294
Net income	$ 520	$ 590	$ 1,076	$ 1,142
Net income per common share				
Basic	$ 0.96	$ 1.09	$ 1.98	$ 2.10
Diluted	$ 0.95	$ 1.07	$ 1.96	$ 2.07
Weighted-average number of common shares outstanding				
Basic	542	543	542	543
Diluted	548	549	548	550
Cash dividends declared per common share	$ 0.52	$ 0.49	$ 1.01	$ 0.94

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Baxter International Inc.

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	$520	$590	$1,076	$1,142
Other comprehensive (loss) income, net of tax:				
Currency translation adjustments, net of tax (benefit) of ($12) and ($11) for the three months ended June 30, 2014 and 2013, respectively, and ($8) and ($4) for the six months ended June 30, 2014 and 2013, respectively	(213)	(30)	(207)	(54)
Pension and other employee benefits, net of tax expense of $14 and $20 for the three months ended June 30, 2014 and 2013, respectively, and $23 and $44 for the six months ended June 30, 2014 and 2013, respectively	28	32	51	77
Hedging activities, net of tax expense (benefit) of $4 and ($8) for the three months ended June 30, 2014 and 2013, respectively, and ($2) and $11 for the six months ended June 30, 2014 and 2013, respectively	4	(13)	(6)	23
Other, net of tax (benefit) expense of ($5) and $2 for the three months ended June 30, 2014 and 2013, respectively, and ($2) and $0 for the six months ended June 30, 2014 and 2013, respectively	(18)	3	(7)	(1)
Total other comprehensive (loss) income, net of tax	(199)	(8)	(169)	45
Comprehensive income	$321	$582	$ 907	$1,187

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Baxter International Inc.

Condensed Consolidated Balance Sheets (unaudited)

(in millions, except shares)

		June 30, 2014	December 31, 2013
Current assets	Cash and equivalents	$ 1,866	$ 2,733
	Accounts and other current receivables, net	2,914	2,911
	Inventories	3,836	3,499
	Prepaid expenses and other	871	861
	Total current assets	9,487	10,004
Property, plant and equipment, net		8,152	7,832
Other assets	Goodwill	4,226	4,205
	Other intangible assets, net	2,329	2,294
	Other	1,435	1,534
	Total other assets	7,990	8,033
Total assets		$ 25,629	$25,869
Current liabilities	Short-term debt	$ 186	$ 181
	Current maturities of long-term debt and lease obligations	1,125	859
	Accounts payable and accrued liabilities	4,484	4,866
	Total current liabilities	5,795	5,906
Long-term debt and lease obligations		7,528	8,126
Other long-term liabilities		3,619	3,351
Commitments and contingencies			
Equity	Common stock, $1 par value, authorized 2,000,000,000 shares, issued 683,494,944 shares in 2014 and 2013	683	683
	Common stock in treasury, at cost, 141,827,303 shares in 2014 and 140,456,989 shares in 2013	(8,039)	(7,914)
	Additional contributed capital	5,785	5,818
	Retained earnings	12,378	11,852
	Accumulated other comprehensive loss	(2,145)	(1,976)
	Total Baxter shareholders equity	8,662	8,463
	Noncontrolling interests	25	23
	Total equity	8,687	8,486
Total liabilities and equity		$ 25,629	$25,869

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Baxter International Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions)

		Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operations	Net income	$ 1,076	$ 1,142
	Adjustments		
	Depreciation and amortization	489	366
	Deferred income taxes	(31)	(63)
	Stock compensation	72	72
	Realized excess tax benefits from stock issued under employee benefit plans	(17)	(19)
	Net periodic pension benefit and OPEB costs	141	187
	Infusion pump and other product-related charges	93	
	Other	74	52
	Changes in balance sheet items		
	Accounts and other current receivables, net	3	12
	Inventories	(360)	(306)
	Accounts payable and accrued liabilities	(222)	(171)
	Business optimization and infusion pump payments	(83)	(52)
	Other	(77)	(71)
	Cash flows from operations	1,158	1,149
Cash flows from investing activities	Capital expenditures	(844)	(639)
	Acquisitions and investments, net of cash acquired	(176)	(87)
	Divestitures and other investing activities	94	10
	Cash flows from investing activities	(926)	(716)
Cash flows from financing activities	Issuances of debt	34	3,489
	Payments of obligations	(526)	(304)
	Increase in debt with original maturities of three months or less, net	150	
	Cash dividends on common stock	(531)	(490)
	Proceeds and realized excess tax benefits from stock issued under employee benefit plans	249	341
	Purchases of treasury stock	(450)	(717)
	Other	2	(24)

Cash flows from financing activities	(1,072)	2,295
Effect of foreign exchange rate changes on cash and equivalents	(27)	(9)
(Decrease) increase in cash and equivalents	(867)	2,719
Cash and equivalents at beginning of period	2,733	3,270
Cash and equivalents at end of period	$ 1,866	$ 5,989

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Baxter International Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements of Baxter International Inc. and its subsidiaries (the company or Baxter) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States have been condensed or omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the company s Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report).

In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments necessary for a fair statement of the interim periods. All such adjustments, unless otherwise noted herein, are of a normal, recurring nature. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

Certain reclassifications have been made to conform the prior period condensed consolidated financial statements to the current period presentation.

Planned spin-off of biopharmaceuticals business

On March 27, 2014 Baxter announced plans to create two separate, independent global healthcare companies one focused on developing and marketing innovative biopharmaceuticals and the other on life-saving medical products. The transaction is intended to take the form of a tax-free distribution to Baxter shareholders of publicly traded stock in the new biopharmaceuticals company. The transaction is expected to be completed by mid-year 2015, subject to market, regulatory and certain other conditions, including final approval by the Baxter Board of Directors, receipt of a favorable opinion and/or rulings with respect to the tax-free nature of the transaction, and the effectiveness of a Form 10 registration statement that will be filed with the SEC. Subsequent to the separation, the historical results of the biopharmaceuticals business will be presented as discontinued operations. During the second quarter of 2014, the company incurred $22 million of separation-related costs in marketing and administrative expenses.

New accounting standards

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the company beginning on January 1, 2017. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

2. SUPPLEMENTAL FINANCIAL INFORMATION

Net interest expense

(in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest expense, net of capitalized interest	$47	$24	$95	$55
Interest income	(5)	(7)	(10)	(13)
Net interest expense	$42	$17	$85	$42

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Inventories

(in millions)	June 30, 2014	December 31, 2013
Raw materials	$ 829	$ 920
Work in process	1,221	1,136
Finished goods	1,786	1,443
Inventories	$3,836	$3,499

Property, plant and equipment, net

(in millions)	June 30, 2014	December 31, 2013
Property, plant and equipment, at cost	$14,366	$13,795
Accumulated depreciation	(6,214)	(5,963)
Property, plant and equipment (PP&E), net	$ 8,152	$ 7,832

3. EARNINGS PER SHARE

The numerator for both basic and diluted earnings per share (EPS) is net income. The denominator for basic EPS is the weighted-average number of common shares outstanding during the period. The dilutive effect of outstanding stock options, restricted stock units (RSUs) and performance share units (PSUs) is reflected in the denominator for diluted EPS using the treasury stock method.

The following is a reconciliation of basic shares to diluted shares.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2014	2013	2014	2013
Basic shares	542	543	542	543
Effect of dilutive securities	6	6	6	7
Diluted shares	548	549	548	550

The effect of dilutive securities included unexercised stock options, unvested RSUs and contingently issuable shares related to granted PSUs. The computation of diluted EPS excluded 11 million and 9 million equity awards for the second quarter and the six months ended June 30, 2014, respectively, and 6 million equity awards for both the second quarter and the six months ended June 30, 2013, because their inclusion would have had an anti-dilutive effect on diluted EPS. Refer to Note 8 for additional information regarding items impacting basic shares.

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4. ACQUISITIONS AND COLLABORATIONS

Acquisitions

The following table summarizes the fair value of consideration transferred and the recognized amounts of the assets acquired and liabilities assumed as of the acquisition date for the company s significant acquisitions during the first half of 2014.

(in millions)	Chatham	AesRx
Consideration transferred		
Cash	$ 70	$15
Contingent payments	77	65
Fair value of consideration transferred	$147	$80
Assets acquired and liabilities assumed		
Other intangible assets IPR&D	$ 74	$78
Total identifiable net assets	74	78
Goodwill	73	2
Total assets acquired and liabilities assumed	$147	$80

While the valuations of consideration transferred and total assets acquired and liabilities assumed are substantially complete, measurement period adjustments may be recorded in the future as the company finalizes its fair value estimates. Pro forma financial information has not been included because these acquisitions, individually and in the aggregate, did not have a material impact on the company s financial position or results of operations as of and for the three and six months ended June 30, 2014.

Additional information regarding the above acquisitions has been provided below.

Chatham Therapeutics, LLC

In April 2014, Baxter acquired all of the outstanding membership interests in Chatham Therapeutics, LLC (Chatham Therapeutics), obtaining Chatham Therapeutics gene therapy programs related to the development and commercialization of treatments for hemophilia.

Baxter made an initial payment of $70 million, and may make additional payments of up to $560 million in payments related to the achievement of development, regulatory and first commercial sale milestones, in addition to sales milestones of up to $780 million. The estimated fair value of the contingent payment liabilities at the acquisition date was $77 million, which was recorded in other long-term liabilities as part of the consideration transferred, and based on the probability of achieving the specified milestones and the discounting of expected future cash flows.

Baxter allocated $74 million of the total consideration to acquired IPR&D, which will be accounted for as an indefinite-lived intangible asset, with the residual consideration of $73 million recorded as goodwill. The acquired IPR&D primarily relates to Chatham Therapeutics hemophilia A (FVIII) program, which was in preclinical stage at the time of the acquisition and is expected to be completed in approximately 10 years. The value of the IPR&D was calculated using cash flow projections adjusted for the inherent technical, regulatory, commercial and obsolescence risks in such activities, discounted at a rate of 12%. Additional research and development will be required prior to technological feasibility, and as of the acquisition date, incremental research and development costs are projected to be in excess of $130 million. The goodwill, which may be deductible for tax purposes depending on the ultimate resolution of the contingent payment liabilities, includes the value of potential future technologies as well as the overall strategic benefits of the acquisition to Baxter in the hemophilia market and is included in the BioScience segment.

AesRx, LLC

In June 2014, Baxter acquired all of the outstanding membership interests in AesRx, LLC (AesRx), obtaining AesRx s program related to the development and commercialization of treatments for sickle cell disease.

Baxter made an initial payment of $15 million, and may make additional payments of up to $278 million related to the achievement of development and regulatory milestones, in addition to sales milestones of up to $550 million. The estimated fair value of the contingent payment liabilities at the acquisition date was $65 million, which was recorded in other long-term liabilities as part of the consideration transferred, and based on the probability of achieving the specified milestones and the discounting of expected future cash flows.

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Baxter allocated $78 million of the total consideration to acquired IPR&D, which will be accounted for as indefinite-lived intangible assets, with the residual consideration of $2 million recorded as goodwill. The acquired IPR&D relates to AesRx s sickle cell disease program, which was in Phase II clinical trials at the time of the acquisition, and is expected to be completed in approximately five years. The value of IPR&D was calculated using cash flow projections adjusted for the inherent technical, regulatory, commercial and obsolescence risks in such activities, discounted at a rate of 15.5%. Additional research and development will be required prior to technological feasibility, and as of the acquisition date, incremental research and development costs are projected to be in excess of $40 million.

Gambro AB Acquisition

On September 6, 2013, Baxter acquired 100 percent of the voting equity interests in Indap Holding AB, the holding company for Gambro AB (Gambro), a privately held dialysis product company based in Lund, Sweden.

In the first quarter of 2014, the company adjusted its preliminary estimates of the fair value of assets acquired and liabilities assumed as of the acquisition date to reflect updated valuations. The measurement period adjustments included a $16 million reduction to property, plant and equipment and $4 million of working capital adjustments. The adjustments resulted in a corresponding increase in goodwill of $16 million and $4 million decrease to the fair value of consideration transferred. There were no measurement period adjustments in the second quarter of 2014, and the first quarter adjustment did not have a material impact on Baxter s results of operations for the six months ended June 30, 2014.

The company incurred charges of $29 million and $63 million in the second quarter and six months ended June 30, 2014 related to the integration of Gambro, including a $19 million loss on the divestiture of Baxter s legacy Continuous Renal Replacement Therapy (CRRT) business in the six months ended June 30, 2014. These charges were recorded in marketing and administrative expenses and other expense (income), net. Additionally, the company incurred charges of $23 million and $40 million in the second quarter and six months ended June 30, 2013 related to pre-acquisition costs associated with the planned acquisition of Gambro, which the company recorded in marketing and administrative expenses.

Collaborations

Coherus Biosciences, Inc.

In August 2013, Baxter and Coherus Biosciences, Inc. (Coherus) entered into an exclusive collaboration to develop and commercialize a biosimilar to etanercept for Europe, Canada, Brazil, and certain other markets. Baxter also has specified rights to include additional products in the collaboration. Baxter recognized research and development charges totaling $60 million during the first half of 2014 related to milestone payments pursuant to the collaboration arrangement, of which $35 million was recognized during the second quarter of 2014. As of June 30, 2014, Baxter may make additional payments of up to $94 million relating to the achievement of development and regulatory milestones, in addition to royalties based on net sales.

5. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Impairment tests for goodwill and intangible assets not subject to amortization are performed annually in the fourth quarter, or sooner if indicators of impairment exist. Intangible assets subject to amortization are tested for impairment when indicators of impairment exist.

Goodwill

The following is a reconciliation of goodwill by business segment.

(in millions)	BioScience	Medical Products	Total
Balance as of December 31, 2013	$ 991	$3,214	$4,205
Additions	75	4	79
Currency translation and other adjustments	(4)	(54)	(58)
Balance as of June 30, 2014	$1,062	$3,164	$4,226

Goodwill additions are primarily related to the acquisition of Chatham Therapeutics in the second quarter of 2014. As of June 30, 2014, there were no accumulated goodwill impairment losses.

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Other intangible assets, net

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets not subject to amortization include a trademark with an indefinite life and acquired IPR&D associated with products that have not yet received regulatory approval.

The following is a summary of the company s other intangible assets.

(in millions)	Developed technology, including patents	Other amortized intangible assets	Indefinite-lived intangible assets	Total
June 30, 2014				
Gross other intangible assets	$2,123	$461	$612	$3,196
Accumulated amortization	(731)	(136)		(867)
Other intangible assets, net	$1,392	$325	$612	$2,329
December 31, 2013				
Gross other intangible assets	$2,144	$494	$465	$3,103
Accumulated amortization	(665)	(144)		(809)
Other intangible assets, net	$1,479	$350	$465	$2,294

The amortization expense for these intangible assets was $47 million and $25 million in the three months ended June 30, 2014 and 2013, respectively, and $90 million and $50 million for the six months ended June 30, 2014 and 2013, respectively. The anticipated annual amortization expense for intangible assets recorded as of June 30, 2014 is $182 million in 2014, $183 million in 2015, $179 million in 2016, $161 million in 2017, $157 million in 2018 and $143 million in 2019.

The increase in indefinite-lived intangible assets in the first six months of 2014 was primarily related to the acquisitions of Chatham Therapeutics and AesRx in the second quarter of 2014.

6. INFUSION PUMP AND BUSINESS OPTIMIZATION CHARGES

Infusion pump charges

The company is undertaking a field corrective action with respect to the SIGMA Spectrum Infusion Pump, which is predominantly sold in the United States. The FDA categorized the action as a Class 1 recall during the second quarter of 2014. Remediation is expected to include software-related corrections and in a limited number of cases a replacement pump, with an expected completion date of March 2016. The company recorded a charge of $93 million related primarily to cash costs associated with remediation efforts, which the company believes to be an adequate reserve as of June 30, 2014. However, it is possible that substantial additional cash and non-cash charges may be required in future periods based on new information or changes in estimates.

From 2005 through 2013, the company recorded total charges and adjustments of $888 million related to COLLEAGUE and SYNDEO infusion pumps, including $725 million of cash costs and $163 million principally related to asset impairments. The company had $83 million of the cash reserves remaining as of December 31, 2013.

During the first half of 2014, the company utilized $13 million of the cash reserves, with a remaining cash reserve of $70 million as of June 30, 2014. The reserve for COLLEAGUE and SYNDEO remediation activities in the United States has been substantially utilized, with remaining reserves primarily related to remediation activities outside of the United States continuing to be utilized through 2015.

Business optimization charges

From 2009 through 2013 the company recorded total charges of $992 million primarily related to costs associated with optimizing the company s overall cost structure on a global basis, as the company streamlined its international operations, rationalized its manufacturing facilities, enhanced its general and administrative infrastructure and re-aligned certain research and development activities. The total charges included cash costs of $689 million, principally pertaining to severance and other employee-related costs, and $303 million related to asset impairments. The company had $288 million of the cash reserves remaining as of December 31, 2013. Refer to the 2013 Annual Report for further information about these charges.

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In the second quarter of 2014, the company recorded a net benefit of $32 million primarily related to adjustments to previous business optimization reserves that are no longer probable of being utilized. In the first half of 2014, the company recorded total adjustments of $37 million to previous business optimization charges that are no longer probable of being utilized, partially offset by additional charges of $33 million primarily related to severance and employee-related costs, and inclusive of Gambro post-acquisition restructuring activities.

The following table summarizes cash activity in the reserves related to the company s business optimization initiatives.

(in millions)	
Reserves as of December 31, 2013	$ 288
Charges	32
Reserve adjustments	(35)
Utilization	(70)
Reserves as of June 30, 2014	$ 215

The reserves are expected to be substantially utilized by the end of 2015. The company believes that these reserves are adequate. However, adjustments may be recorded in the future as the programs are completed.

7. DEBT, FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Securitization arrangement

The following is a summary of the activity relating to the company s securitization arrangement in Japan.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2014	2013	2014	2013
Sold receivables at beginning of period	$109	$120	$114	$157
Proceeds from sales of receivables	117	131	240	255
Cash collections (remitted to the owners of the receivables)	(120)	(123)	(249)	(264)
Effect of currency exchange rate changes		1	1	(19)
Sold receivables at end of period	$106	$129	$106	$129

The net losses relating to the sales of receivables were immaterial for each period. Refer to the 2013 Annual Report for further information regarding the company s securitization agreements.

Credit facilities and commercial paper

As of June 30, 2014, there were no outstanding borrowings under the company s primary and Euro-denominated revolving credit facilities. As of December 31, 2013, there were no outstanding borrowings under the company s primary revolving credit facility and approximately $124 million outstanding under the Euro-denominated revolving credit facility. Refer to the 2013 Annual Report for further discussion of the company s credit facilities.

In July 2014, the company amended its primary and Euro-denominated revolving credit facilities to extend the termination date of the facilities to December 31, 2015. There were no other material changes to the terms of the facilities as a result of the amendments.

During the first six months of 2014, the company issued and redeemed commercial paper, of which $150 million was outstanding as of June 30, 2014 with a weighted-average interest rate of 0.165%. This commercial paper is classified as short-term debt. The company did not have any commercial paper outstanding as of December 31, 2013.

Concentrations of credit risk

The company invests excess cash in certificates of deposit or money market funds and diversifies the concentration of cash among different financial institutions. With respect to financial instruments, where appropriate, the company has diversified its selection of counterparties, and has arranged collateralization and master-netting agreements to minimize the risk of loss.

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The company continues to do business with foreign governments in certain countries, including Greece, Spain, Portugal and Italy, that have experienced a deterioration in credit and economic conditions. As of June 30, 2014, the company s net accounts receivable from the public sector in Greece, Spain, Portugal and Italy totaled $450 million (of which $37 million related to Greece).

Global economic conditions and liquidity issues in certain countries have resulted, and may continue to result, in delays in the collection of receivables and credit losses. Governmental actions and customer-specific factors may also require the company to re-evaluate the collectibility of its receivables and the company could potentially incur additional credit losses. These conditions may also impact the stability of the Euro.

Derivatives and hedging activities

The company operates on a global basis and is exposed to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange and interest rates. The company s hedging policy attempts to manage these risks to an acceptable level based on the company s judgment of the appropriate trade-off between risk, opportunity and costs.

The company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities, forecasted transactions and net assets denominated in the Euro, Japanese Yen, British Pound, Australian Dollar, Canadian Dollar, Brazilian Real, Colombian Peso, and Swedish Krona. The company manages its foreign currency exposures on a consolidated basis, which allows the company to net exposures and take advantage of any natural offsets. In addition, the company uses derivative and nonderivative instruments to further reduce the net exposure to foreign exchange. Gains and losses on the hedging instruments offset losses and gains on the hedged transactions and reduce the earnings and equity volatility resulting from foreign exchange. Financial market and currency volatility may limit the company s ability to cost-effectively hedge these exposures.

The company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates. The company s policy is to manage interest costs using a mix of fixed- and floating-rate debt that the company believes is appropriate. To manage this mix in a cost-efficient manner, the company periodically enters into interest rate swaps in which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount.

The company does not hold any instruments for trading purposes and none of the company s outstanding derivative instruments contain credit-risk-related contingent features.

All derivative instruments are recognized as either assets or liabilities at fair value in the condensed consolidated balance sheets and are classified as short-term or long-term based on the scheduled maturity of the instrument. Based upon the exposure being hedged, the company designates its hedging instruments as cash flow or fair value hedges.

Cash Flow Hedges

The company may use options, including collars and purchased options, forwards and cross-currency swaps to hedge the foreign exchange risk to earnings relating to forecasted transactions and recognized assets and liabilities. The company periodically uses forward-starting interest rate swaps and treasury rate locks to hedge the risk to earnings associated with movements in interest rates relating to anticipated issuances of debt. Certain other firm commitments and forecasted transactions are also periodically hedged.

For each derivative instrument that is designated and effective as a cash flow hedge, the gain or loss on the derivative is accumulated in accumulated other comprehensive income (AOCI) and then recognized in earnings consistent with the underlying hedged item. Option premiums or net premiums paid are initially recorded as assets and reclassified to other comprehensive income (OCI) over the life of the option, and then recognized in earnings consistent with the underlying hedged item. Cash flow hedges are classified in net sales, cost of sales, and net interest expense, and primarily relate to forecasted third-party sales denominated in foreign currencies, forecasted intercompany sales denominated in foreign currencies, and anticipated issuances of debt, respectively.

The notional amounts of foreign exchange contracts were $1.6 billion and $2.1 billion as of June 30, 2014 and December 31, 2013, respectively. There were no interest rate contacts designated as cash flow hedges outstanding as of June 30, 2014 and December 31, 2013. The maximum term over which the company has cash flow hedge contracts in place related to forecasted transactions as of June 30, 2014 is 18 months.

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Fair Value Hedges

The company uses interest rate swaps to convert a portion of its fixed-rate debt into variable-rate debt. These instruments hedge the company s earnings from changes in the fair value of debt due to fluctuations in the designated benchmark interest rate. For each derivative instrument that is designated and effective as a fair value hedge, the gain or loss on the derivative is recognized immediately to earnings, and offsets the loss or gain on the underlying hedged item. Fair value hedges are classified in net interest expense, as they hedge the interest rate risk associated with certain of the company s fixed-rate debt.

The total notional amount of interest rate contracts designated as fair value hedges was $1.7 billion and $1.2 billion as of June 30, 2014 and December 31, 2013, respectively.

Dedesignations

If it is determined that a derivative or nonderivative hedging instrument is no longer highly effective as a hedge, the company discontinues hedge accounting prospectively. If the company removes the cash flow hedge designation because the hedged forecasted transactions are no longer probable of occurring, any gains or losses are immediately reclassified from AOCI to earnings. Gains or losses relating to terminations of effective cash flow hedges in which the forecasted transactions are still probable of occurring are deferred and recognized consistent with the loss or income recognition of the underlying hedged items.

There were no hedge dedesignations in the first six months of 2014 resulting from changes in the company s assessment of the probability that the hedged forecasted transactions would occur. In the first half of 2013, the company had $1 billion of interest rate contracts designated as cash flow hedges that matured or were terminated, resulting in a net gain of $5 million that was deferred in AOCI. In the second quarter of 2013, the company determined that certain forecasted transactions associated with these contracts were no longer probable of occurring and therefore dedesignated the hedge relationship, which, together with ineffectiveness, resulted in the immediate reclassification of a net gain of $11 million from AOCI to net interest expense. The remaining deferred net loss of $6 million from the matured or terminated interest rate contracts is being amortized to net interest expense against the related accrued interest payments.

If the company terminates a fair value hedge, an amount equal to the cumulative fair value adjustment to the hedged items at the date of termination is amortized to earnings over the remaining term of the hedged item. There were no fair value hedges terminated during the first half of 2014 and 2013.

Undesignated Derivative Instruments

The company uses forward contracts to hedge earnings from the effects of foreign exchange relating to certain of the company s intercompany and third-party receivables and payables denominated in a foreign currency. These derivative instruments are generally not formally designated as hedges, and the change in fair value, which substantially offsets the change in book value of the hedged items, is recorded directly to other expense (income), net. The terms of these instruments generally do not exceed one month.

The total notional amount of undesignated derivative instruments was $397 million as of June 30, 2014 and $381 million as of December 31, 2013. In the fourth quarter of 2012 and the first quarter of 2013, the company entered into option contracts with a total notional amount of $3.7 billion to hedge anticipated foreign currency cash outflows associated with the planned acquisition of Gambro. These contracts matured in June 2013, and in the second quarter of 2013, the company entered into undesignated forward contracts with a total notional amount of $1.5 billion also to hedge anticipated foreign currency cash outflows associated with the planned acquisition of Gambro. These contracts matured in the third quarter of 2013.

The company recorded losses of $55 million and $72 million in the three and six months ended June 30, 2013, respectively, associated with the Gambro-related option and forward contracts, which more than offset net gains on other undesignated derivative instruments.

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Gains and Losses on Derivative Instruments

The following table summarizes the income statement locations and gains and losses on the company s derivative instruments for the three months ended June 30, 2014 and 2013.

(in millions)	Gain (loss) recognized in OCI 2014	Gain (loss) recognized in OCI 2013	Location of gain (loss) in income statement	Gain (loss) reclassified from AOCI into income 2014	Gain (loss) reclassified from AOCI into income 2013
Cash flow hedges					
Interest rate contracts	$	$21	Net interest expense	$	$11
Foreign exchange contracts	1	1	Net sales	1	(1)
Foreign exchange contracts	5	(17)	Cost of sales	(3)	16
Total	$ 6	$ 5		$ (2)	$26

(in millions)	Location of gain (loss) in income statement	Gain (loss) recognized in income 2014	Gain (loss) recognized in income 2013
Fair value hedges			
Interest rate contracts	Net interest expense	$ 17	$(21)
Undesignated derivative instruments			
Foreign exchange contracts	Other expense (income), net	$(22)	$(44)

The following table summarizes the income statement locations and gains and losses on the company s derivative instruments for the six months ended June 30, 2014 and 2013.

(in millions)	Gain (loss) recognized in OCI 2014	Gain (loss) recognized in OCI 2013	Location of gain (loss) in income statement	Gain (loss) reclassified from AOCI into income 2014	Gain (loss) reclassified from AOCI into income 2013
Cash flow hedges					
Interest rate contracts	$	$26	Net interest expense	$(1)	$11
Foreign exchange contracts			Net sales	1	(1)
Foreign exchange contracts	(6)	36	Cost of sales	2	18
Total	$ (6)	$62		$ 2	$28

(in millions)	Location of gain (loss) in income statement	Gain (loss) recognized in income 2014	Gain (loss) recognized in income 2013
Fair value hedges			
Interest rate contracts	Net interest expense	$ 31	$(26)
Undesignated derivative instruments			
Foreign exchange contracts	Other expense (income), net	$(10)	$(45)

For the company s fair value hedges, equal and offsetting losses of $17 million and $31 million were recognized in net interest expense in the second quarter and first half of 2014, respectively, and equal and offsetting gains of $21 million and $26 million were recognized in net interest expense in the second quarter and first half of 2013, respectively, as adjustments to the underlying hedged item, fixed-rate debt. Ineffectiveness related to the company s cash flow and fair value hedges for the six months ended June 30, 2014 was not material.

As of June 30, 2014, $3 million of deferred, net after-tax losses on derivative instruments included in AOCI are expected to be recognized in earnings during the next 12 months, coinciding with when the hedged items are expected to impact earnings.

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Fair Values of Derivative Instruments

The following table summarizes the classification and fair values of derivative instruments reported in the condensed consolidated balance sheet as of June 30, 2014.

(in millions)	Derivatives in asset positions Balance sheet location	Fair value	Derivatives in liability positions Balance sheet location	Fair value
Derivative instruments designated as hedges				
Interest rate contracts	Other long-term assets	$52		
Foreign exchange contracts	Prepaid expenses and other	19		
Foreign exchange contracts	Other long-term assets	2	Accounts payable and accrued liabilities	4
Total derivative instruments designated as hedges		$73		$4
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other	$	Accounts payable and accrued liabilities	$1
Total derivative instruments		$73		$5

The following table summarizes the classification and fair values of derivative instruments reported in the condensed consolidated balance sheet as of December 31, 2013.

(in millions)	Derivatives in asset positions Balance sheet location	Fair value	Derivatives in liability positions Balance sheet location	Fair value
Derivative instruments designated as hedges				
Interest rate contracts	Other long-term assets	$35	Other long-term liabilities	$14
Foreign exchange contracts	Prepaid expenses and other	37	Accounts payable and accrued liabilities	7
Total derivative instruments designated as hedges		$72		$21
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other	$	Accounts payable and accrued liabilities	$ 1
Total derivative instruments		$72		$22

While the company s derivatives are all subject to master netting arrangements, the company presents its assets and liabilities related to derivative instruments on a gross basis within the condensed consolidated balance sheets. Additionally, the company is not required to post collateral for any of its outstanding derivatives.

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The following table provides information on the company s derivative positions as if they were presented on a net basis, allowing for the right of offset by counterparty:

(in millions)	June 30, 2014 Asset	June 30, 2014 Liability	December 31, 2013 Asset	December 31, 2013 Liability
Gross amounts recognized in the consolidated balance sheet	$ 73	$ 5	$ 72	$ 22
Gross amount subject to offset in master netting arrangements not offset in the consolidated balance sheet	(5)	(5)	(17)	(17)
Total	$ 68	$	$ 55	$ 5

Fair value measurements

The following tables summarize the bases used to measure financial assets and liabilities that are carried at fair value on a recurring basis in the condensed consolidated balance sheets.

		Basis of fair value measurement		
(in millions)	Balance as of June 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Foreign currency hedges	$ 21	$	$21	$
Interest rate hedges	52		52	
Available-for-sale securities				
Equity securities	100	100		
Foreign government debt securities	18		18	
Total assets	$191	$100	$91	$
Liabilities				
Foreign currency hedges	$ 5	$	$ 5	$
Contingent payments related to acquisitions	523			523
Total liabilities	$528	$	$ 5	$523

		Basis of fair value measurement		
(in millions)	Balance as of December 31, 2013	Quoted prices in active markets for identical	Significant other observable inputs	Significant unobservable

		assets (Level 1)	(Level 2)	inputs (Level 3)
Assets				
Foreign currency hedges	$ 37	$	$37	$
Interest rate hedges	35		35	
Available-for-sale securities				
Equity securities	102	102		
Foreign government debt securities	18		18	
Total assets	$192	$102	$90	$
Liabilities				
Foreign currency hedges	$ 8	$	$ 8	$
Interest rate hedges	14		14	
Contingent payments related to acquisitions and investments	340			340
Total liabilities	$362	$	$22	$340

As of June 30, 2014, cash and equivalents of $1.9 billion included money market funds of approximately $25 million, which would be considered Level 2 in the fair value hierarchy.

For assets that are measured using quoted prices in active markets, the fair value is the published market price per unit multiplied by the number of units held, without consideration of transaction costs. The majority of the derivatives entered into by the company are valued using internal valuation techniques as no quoted market prices exist for such instruments. The principal techniques used to value these instruments are discounted cash flow and Black-Scholes models. The key inputs are considered observable and vary depending on the type of derivative, and include contractual terms, interest rate yield curves, foreign exchange rates and volatility. The fair values of foreign government debt securities are obtained from pricing services or broker/dealers who use proprietary pricing applications, which include observable market information for like or same securities.

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Contingent payments related to acquisitions consist of development and commercial milestone payments, in addition to sales-based payments, and are valued using discounted cash flow techniques. The fair value of development and commercial milestone payments reflects management s expectations of probability of payment, and increases as the probability of payment increases or expectation of timing of payments is accelerated. As of June 30, 2014, management s expected weighted-average probability of payment for development and commercial milestone payments decreased to approximately 27% largely due to the contingent payments related to the acquisitions completed in the quarter. The fair value of sales-based payments is based upon probability-weighted future revenue estimates, and increases as revenue estimates increase, probability weighting of higher revenue scenarios increase or expectation of timing of payment is accelerated.

At June 30, 2014, the company held available-for-sale equity securities that had an amortized cost basis and fair value of $118 million and $100 million, respectively. The company had net unrealized losses of $18 million, comprised of unrealized losses of $47 million, which the company believes to be temporary in nature, and unrealized gains of $29 million. At December 31, 2013, the amortized cost basis and fair value of the available-for-sale equity securities was $111 million and $102 million, respectively. The company had net unrealized losses of $9 million, comprised of unrealized losses of $31 million, which the company believes to be temporary in nature, and unrealized gains of $22 million.

Unrealized losses on equity securities of $45 million and $30 million as of June 30, 2014 and December 31, 2013, respectively, relate to Baxter s holdings in the common stock of Onconova Therapeutics, Inc. (Onconova). The amortized cost basis was $59 million and $60 million as of June 30, 2014 and December 31, 2013, respectively. Onconova common stock has been in a loss position for less than 12 months and Baxter believes the losses are temporary in nature due to future development opportunities for Onconova s most advanced product candidate, rigosertib, in addition to its other candidates in clinical trials and pre-clinical stages.

The following table is a reconciliation of the fair value measurements that use significant unobservable inputs (Level 3), which consists of contingent payments related to acquisitions.

(in millions)	Contingent payments
Fair value as of December 31, 2013	$340
Additions	142
Net losses recognized in earnings	43
CTA	(2)
Fair value as of June 30, 2014	$523

The company s additions in 2014 relate to the contingent payment liabilities of $77 million associated with the acquisition of Chatham Therapeutics and $65 million associated with the acquisition of AesRx. The net loss recognized in earnings primarily relates to an increase in the estimated fair value of contingent payment liabilities for certain milestones associated with the 2013 acquisition of the investigational hemophilia compound OBI-1 and related assets from Inspiration BioPharmaceuticals and Ipsen Pharma S.A.S. The loss was reported in other expense (income), net. The contingent liabilities were increased based on updated information indicating that the probability of achieving certain sales levels, and the resulting sales-based payments, was higher than previously expected.

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Book Values and Fair Values of Financial Instruments

In addition to the financial instruments that the company is required to recognize at fair value on the condensed consolidated balance sheets, the company has certain financial instruments that are recognized at historical cost or some basis other than fair value. For these financial instruments, the following table provides the values recognized on the condensed consolidated balance sheets and the approximate fair values as of June 30, 2014 and December 31, 2013.

(in millions)	Book values 2014	Book values 2013	Approximate fair values 2014	Approximate fair values 2013
Assets				
Long-term insurance receivables	$ 2	$ 2	$ 2	$ 2
Investments	63	53	64	53
Liabilities				
Short-term debt	186	181	186	181
Current maturities of long-term debt and lease obligations	1,125	859	1,143	862
Long-term debt and lease obligations	7,528	8,126	7,869	8,298
Long-term litigation liabilities	55	72	54	70

The following tables summarize the bases used to measure the approximate fair value of the financial instruments as of June 30, 2014 and December 31, 2013.

(in millions)	Fair value as of June 30, 2014	Basis of fair value measurement: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Long-term insurance receivables	$ 2	$	$	$ 2
Investments	64		19	45
Total assets	$ 66	$	$ 19	$47
Liabilities				
Short-term debt	$ 186	$	$ 186	$
Current maturities of long-term debt and lease obligations	1,143		1,143	
Long-term debt and lease obligations	7,869		7,869	
Long-term litigation liabilities	54			54

Total liabilities	$9,252	$	$9,198	$54

		Basis of fair value measurement		
(in millions)	Fair value as of December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Long-term insurance receivables	$ 2	$	$	$ 2
Investments	53		17	36
Total assets	$ 55	$	$ 17	$38
Liabilities				
Short-term debt	$ 181	$	$ 181	$
Current maturities of long-term debt and lease obligations	862		862	
Long-term debt and lease obligations	8,298		8,298	
Long-term litigation liabilities	70			70
Total liabilities	$9,411	$	$9,341	$70

The estimated fair values of long-term insurance receivables and long-term litigation liabilities were computed by discounting the expected cash flows based on currently available information, which in many cases does not include final orders or settlement agreements. The discount factors used in the calculations reflect the non-performance risk of the insurance providers and the company, respectively.

Investments in 2014 and 2013 included certain cost method investments and held-to-maturity debt securities.

The fair value of held-to-maturity debt securities is calculated using a discounted cash flow model that incorporates observable inputs, including interest rate yields, which represents a Level 2 basis of fair value measurement.

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In determining the fair value of cost method investments, the company takes into consideration recent transactions, as well as the financial information of the investee, which represents a Level 3 basis of fair value measurement.

The estimated fair values of current and long-term debt were computed by multiplying price by the notional amount of the respective debt instrument. Price is calculated using the stated terms of the respective debt instrument and yield curves commensurate with the company s credit risk. The carrying values of the other financial instruments approximate their fair values due to the short-term maturities of most of these assets and liabilities.

In the first quarter of 2014, the company recognized a $44 million gain related to the sale of certain equity method investments in other expense (income), net.

8. SHAREHOLDERS EQUITY

Stock-based compensation

Stock compensation expense totaled $41 million and $40 million for the three months ended June 30, 2014 and 2013, respectively, and $72 million for both six month periods ended June 30, 2014 and 2013. Over 70% of stock compensation expense is classified in marketing and administrative expenses with the remainder classified in cost of sales and research and development expenses.

In March 2014, the company awarded its annual stock compensation grants, which consisted of 6.5 million stock options, 854,000 RSUs and 335,000 PSUs. In June 2014, the company awarded 283,000 RSUs in connection with the planned separation of Baxter s biopharmaceutical and medical products businesses.

Stock Options

The fair value of stock options is determined using the Black-Scholes model. The company s expected volatility assumption is based on a weighted-average of the historical volatility of Baxter s stock and the implied volatility from traded options on Baxter s stock, with historical volatility more heavily weighted.

The weighted-average assumptions used in estimating the fair value of stock options granted during the period, along with the weighted-average grant-date fair values, were as follows.

	Six months ended June 30,	
	2014	2013
Expected volatility	24%	25%
Expected life (in years)	5.5	5.5
Risk-free interest rate	1.7%	0.9%
Dividend yield	2.8%	2.6%
Fair value per stock option	$12	$12

The total intrinsic value of stock options exercised was $34 million and $46 million during the second quarters of 2014 and 2013, respectively, and $79 million and $107 million during the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014, the unrecognized compensation cost related to all unvested stock options of $95 million is expected to be recognized as expense over a weighted-average period of 1.9 years.

Restricted Stock Units

The fair value of RSUs is determined based on the quoted price of the company s common stock on the date of the grant. As of June 30, 2014, the unrecognized compensation cost related to all unvested RSUs of $110 million is expected to be recognized as expense over a weighted-average period of 1.9 years.

Performance Share Units

As part of an overall periodic evaluation of the company s stock compensation programs, the company changed the vesting condition for 50% of the PSUs granted to senior management beginning with its 2013 annual equity awards. The vesting condition for these PSUs is based on return on invested capital, with annual performance targets set at the beginning of the year for each tranche of the award during the three-year service period. The holder of these PSUs is entitled to receive a number of shares of common stock equal to a percentage, ranging from 0% to 200%, of the PSU granted, depending on the actual results compared to the annual performance targets.

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Compensation cost for these PSUs is measured based on the fair value of the awards on the date that the specific vesting terms for each tranche of the award are established. The fair value of the awards is determined based on the quoted price of the company s stock on the grant date for each tranche of the award. The compensation cost for these PSUs is adjusted at each reporting date to reflect the estimated probability of achieving the vesting condition. The probability of achieving the vesting conditions has not materially changed during the second quarter of 2014.

The fair value of the remaining PSUs is determined using a Monte Carlo model. A Monte Carlo model uses stock price volatility and other variables to estimate the probability of satisfying the market conditions and the resulting fair value of the award. The assumptions used in estimating the fair value of these PSUs granted during the period, along with the grant-date fair values, were as follows.

	Six months ended June 30, 2014		Six months ended June 30, 2013	
Baxter volatility	20%		21%	
Peer group volatility	13%	58%	13%	38%
Correlation of returns	0.23	0.66	0.37	0.62
Risk-free interest rate	0.7%		0.3%	
Fair value per PSU	$57		$67	

As of June 30, 2014, the unrecognized compensation cost related to all granted unvested PSUs of $22 million is expected to be recognized as expense over a weighted-average period of 1.4 years.

Stock repurchases

As authorized by the board of directors, the company repurchases its stock depending upon the company s cash flows, net debt level and market conditions. During the three- and six-month periods ended June 30, 2014, the company repurchased 2.7 million shares and 6.4 million shares for $200 million and $450 million, respectively, under the board of directors July 2012 $2.0 billion share repurchase authorization. As of June 30, 2014, $571 million remained available under the July 2012 authorization.

9. RETIREMENT AND OTHER BENEFIT PROGRAMS

The following is a summary of net periodic benefit cost relating to the company s pension and other postemployment benefit (OPEB) plans.

(in millions)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Pension benefits				
Service cost	$33	$33	$ 66	$ 67
Interest cost	60	51	120	102
Expected return on plan assets	(68)	(63)	(134)	(127)
Amortization of net losses and other deferred amounts	36	61	72	123
Net periodic pension benefit cost	$61	$82	$124	$165

OPEB				
Service cost	$ 2	$ 3	$ 3	$ 5
Interest cost	7	6	14	13
Amortization of net loss and prior service credit		2		4
Net periodic OPEB cost	$ 9	$11	$ 17	$ 22

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10. ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income includes all changes in shareholders equity that do not arise from transactions with shareholders, and consists of net income, currency translation adjustments (CTA), pension and other employee benefits, unrealized gains and losses on cash flow hedges and unrealized gains and losses on unrestricted available-for-sale marketable equity securities. The following is a net-of-tax summary of the changes in AOCI by component for the six months ended June 30, 2014 and 2013.

(in millions)	Currency translation adjustments	Pension and other employee benefits	Hedging activities	Other	Total
Gains (losses)					
Balance as of December 31, 2013	$ (991)	$(1,027)	$10	$32	$(1,976)
Other comprehensive income before reclassifications	(207)	2	(5)	(7)	(217)
Amounts reclassified from AOCI (a)		49	(1)		48
Net other comprehensive (loss) income	(207)	51	(6)	(7)	(169)
Balance as of June 30, 2014	$(1,198)	$ (976)	$ 4	$25	$(2,145)

(in millions)	Currency translation adjustments	Pension and other employee benefits	Hedging activities	Other	Total
Gains (losses)					
Balance as of December 31, 2012	$(1,227)	$(1,619)	$ (5)	$41	$(2,810)
Other comprehensive income before reclassifications	(54)	(6)	41	(1)	(20)
Amounts reclassified from AOCI (a)		83	(18)		65
Net other comprehensive (loss) income	(54)	77	23	(1)	45
Balance as of June 30, 2013	$(1,281)	$(1,542)	$18	$40	$(2,765)

(a) See table below for details about these reclassifications.

The following is a summary of the amounts reclassified from AOCI to net income during the three and six months ended June 30, 2014 and 2013.

Amounts reclassified from AOCI (a)

(in millions)	Three months ended June 30, 2014	Six months ended June 30, 2014	Location of impact in income statement
Amortization of pension and other employee benefits items			
Actuarial losses and other	$(36)(b)	$(72)(b)	
	(36)	(72)	Total before tax
	13	23	Tax benefit
	$(23)	$(49)	Net of tax
Gains (losses) on hedging activities			
Interest rate contracts	$	$ (1)	Net interest expense
Foreign exchange contracts	1	1	Net sales
Foreign exchange contracts	(3)	2	Cost of sales
	(2)	2	Total before tax
	1	(1)	Tax expense
	$ (1)	$ 1	Net of tax
Total reclassification for the period	$(24)	$(48)	Total net of tax

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(in millions)	Amounts reclassified from AOCI (a) Three months ended June 30, 2013	Six months ended June 30, 2013	Location of impact in income statement
Amortization of pension and other employee benefits items			
Actuarial losses and other	$(63)(b)	$(127)(b)	
	(63)	(127)	Total before tax
	22	44	Tax benefit
	$(41)	$ (83)	Net of tax
Gains (losses) on hedging activities			
Interest rate contracts	$ 11	$ 11	Net interest expense
Foreign exchange contracts	(1)	(1)	Net sales
Foreign exchange contracts	16	18	Cost of sales
	26	28	Total before tax
	(9)	(10)	Tax expense
	$ 17	$ 18	Net of tax
Total reclassification for the period	$(24)	$ (65)	Total net of tax

(a) Amounts in parentheses indicate reductions to net income.
(b) These AOCI components are included in the computation of net periodic benefit cost disclosed in Note 9.
Refer to Note 9 for additional information regarding the amortization of pension and other employee benefits items and Note 7 for additional information regarding hedging activity.

11. INCOME TAXES

Effective tax rate

The company s effective income tax rate was 21.3% and 20.6% in the three months ended June 30, 2014 and 2013, respectively, and 21.5% and 20.5% in the six months ended June 30, 2014 and 2013, respectively. The company s effective income tax rate differs from the United States federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, and foreign taxes that are different than the United States federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

The effective income tax rate increased during the three and six months ended June 30, 2014 compared to the prior periods primarily as a result of certain discrete factors that favorably impacted the effective tax rate in the three and six months ended June 30, 2013. These 2013 items included realization of state tax credits and a net reduction in miscellaneous tax contingent matters.

12. LEGAL PROCEEDINGS

Baxter is involved in product liability, patent, commercial, and other legal matters that arise in the normal course of the company s business. The company records a liability when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded. As of June 30, 2014, the company s total recorded reserves with respect to legal matters were $77 million and the total related receivables were $6 million.

Baxter has established reserves for certain of the matters discussed below. The company is not able to estimate the amount or range of any loss for certain contingencies for which there is no reserve or additional loss for matters already reserved. While the liability of the company in connection with the claims cannot be estimated with any certainty and although the resolution in any reporting period of one or more of these matters could have a significant impact on the company s results of operations and cash flows for that period, the outcome of these legal proceedings is not expected to have a material adverse effect on the company s consolidated financial position. While the company believes that it has valid defenses in these matters, litigation is inherently uncertain, excessive verdicts do occur, and the company may incur material judgments or enter into material settlements of claims.

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In addition to the matters described below, the company remains subject to the risk of future administrative and legal actions. With respect to governmental and regulatory matters, these actions may lead to product recalls, injunctions, and other restrictions on the company s operations and monetary sanctions, including significant civil or criminal penalties. With respect to intellectual property, the company may become exposed to significant litigation concerning the scope of the company s and others rights. Such litigation could result in a loss of patent protection or the ability to market products, which could lead to a significant loss of sales, or otherwise materially affect future results of operations.

General litigation

Baxter is a defendant in a number of suits alleging that certain of the company s current and former executive officers and its board of directors failed to adequately oversee the operations of the company and issued materially false and misleading statements regarding the company s plasma-based therapies business, the company s remediation of its COLLEAGUE infusion pumps, its heparin product, and other quality issues. Plaintiffs allege these actions damaged the company and its shareholders by resulting in a decline in stock price in the second quarter of 2010, payment of excess compensation to the board of directors and certain of the company s current and former executive officers, and other damage to the company. In January 2014, an independent special litigation committee was established by the company s board of directors to determine whether it is in the best interests of the company and its shareholders to pursue or otherwise resolve the claims raised in and arising from this matter. The company and the plaintiffs in the consolidated derivative suit filed in the U.S.D.C. for the Northern District of Illinois have entered into a revised memorandum of understanding outlining the terms of a settlement of that suit, including the establishment of a Regulatory Council for the Medical Products business, $12 million to be spent on quality and regulatory compliance initiatives over the next three years, and the payment of legal fees (which have been reserved). The settlement remains subject to the approval of the special litigation committee of the board of directors and the court. Two other derivative actions were previously filed in state courts, one in Lake County, Illinois and one in the Delaware Chancery Court, and both matters have been stayed pending the resolution of the federal action. In addition, a consolidated alleged class action is pending in the U.S.D.C. for the Northern District of Illinois against the company and certain of its current executive officers seeking to recover the lost value of investors stock and the parties are currently proceeding with discovery. In April 2013, the company filed its opposition to the plaintiff s motion to certify a class action.

The company was a defendant, along with others, in a number of lawsuits consolidated for pretrial proceedings in the U.S.D.C. for the Northern District of Illinois alleging that Baxter and certain of its competitors conspired to restrict output and artificially increase the price of plasma-derived therapies since 2003. Some of the complaints attempt to state a claim for class action relief and some cases demand treble damages. In January 2012, the court granted the company s motion to dismiss certain federal claims brought by indirect purchasers and returned the remaining indirect purchaser claims to the court of original jurisdiction (U.S.D.C. for the Northern District of California) in August 2012. The indirect purchaser complaint was amended to remove class action allegations in May 2013. The company settled with the direct purchaser plaintiffs for $64 million, which was paid during the first quarter of 2014, and final court approval of the settlement was obtained in April 2014.

Other

In May 2014, the company received a formal demand for information from the United States Attorney for the Western District of Pennsylvania for information related to alleged off-label sales of its pulmonary treatments. The company is fully cooperating with this request.

In the fourth quarter of 2012, the company received two investigative demands from the United States Attorney for the Western District of North Carolina for information regarding its quality and manufacturing practices and procedures at its North Cove facility. The company is fully cooperating with this investigation.

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13. SEGMENT INFORMATION

Baxter s two segments, BioScience and Medical Products, are strategic businesses that are managed separately because each business develops, manufactures and markets distinct products and services. The segments and a description of their products and services are as follows:

The **BioScience** business processes recombinant and plasma-based proteins to treat hemophilia and other bleeding disorders; plasma-based therapies to treat immune deficiencies, alpha-1 antitrypsin deficiency, burns and shock, and other chronic and acute blood-related conditions; biosurgery products; and select vaccines.

The **Medical Products** business manufactures intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, infusion pumps, and inhalation anesthetics. The business also provides products and services related to pharmacy compounding, drug formulation and packaging technologies. In addition, Baxter has a comprehensive portfolio of renal therapies to meet the needs of patients across the treatment continuum. The portfolio includes innovative technologies and therapies for peritoneal dialysis, in-center hemodialysis, home hemodialysis, CRRT and additional dialysis services. The financial information for the three and six months ended June 30, 2014 includes the results of Gambro. As the acquisition was completed on September 6, 2013, the financial information for the three and six months ended June 30, 2013 does not include the results of Gambro.

The company uses more than one measurement and multiple views of data to measure segment performance and to allocate resources to the segments. However, the dominant measurements are consistent with the company s condensed consolidated financial statements and, accordingly, are reported on the same basis in this report. The company evaluates the performance of its segments and allocates resources to them primarily based on pre-tax income along with cash flows and overall economic returns. Intersegment sales are eliminated in consolidation.

Certain items are maintained at Corporate and are not allocated to a segment. They primarily include most of the company s debt and cash and equivalents and related net interest expense, certain foreign exchange fluctuations (principally relating to intercompany receivables, payables and loans denominated in a foreign currency) and the majority of the foreign currency hedging activities, corporate headquarters costs, stock compensation expense, certain non-strategic investments and related income and expense, certain employee benefit plan costs, certain nonrecurring gains and losses and other certain other charges (such as business optimization and asset impairment). With respect to depreciation and amortization and expenditures for long-lived assets, the difference between the segment totals and the consolidated totals principally relate to assets maintained at Corporate.

Financial information for the company s segments is as follows.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2014	2013	2014	2013
Net sales				
BioScience	$1,751	$1,638	$3,359	$3,168
Medical Products	2,513	2,031	4,856	3,949
Total net sales	$4,264	$3,669	$8,215	$7,117
Pre-tax income				

BioScience	$ 580	$ 646	$1,177	$1,236
Medical Products	258	373	551	695
Total pre-tax income from segments	$ 838	$1,019	$1,728	$1,931

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The following is a reconciliation of segment pre-tax income to income before income taxes per the condensed consolidated statements of income.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2014	2013	2014	2013
Total pre-tax income from segments	$838	$1,019	$1,728	$1,931
Unallocated amounts				
Stock compensation	(41)	(40)	(72)	(72)
Net interest expense	(42)	(17)	(85)	(42)
Business optimization items	32	2	4	2
Certain foreign currency fluctuations and hedging activities	10	25	26	42
Other Corporate items	(136)	(246)		

The performance data above represents past performance; past performance does not guarantee future results.

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

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

Types of Investment Options

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

In addition to the quoted net expense ratios, other expenses, including legal, auditing, custody service and tax form preparation, investment and reinvestment expenses may apply with respect to your CIT investment. The Delaware CITs offered by the Plan are maintained by SEI Trust Company and the MFS International Growth Fund CIT is maintained by MFS Heritage Trust Company. The SSgA CITs offered by the Plan are maintained by the State Street Bank and Trust Company.

Participation or investment in a CIT is governed by the terms of the trust and participation materials. An investor should carefully consider the investment objectives, risks, and charges and expenses of the CIT before investing. The disclosure statement for each CIT together with the declaration of trust for the Delaware Investments Collective Investment Trust contains this and other important information and should be read carefully before investing or sending money. For disclosure statements and declaration of trust, please contact Lincoln Alliance's Customer Contact Center at 800-234-3500, or visit its website at: www.LincolnFinancial.com. On the drop down box select "Review Plan Information."

Mutual Funds. Mutual funds invest in stocks and bonds and other investments and are registered with the SEC as an investment company under the 1940 Act. Investors in a mutual fund are "shareholders" in a fund with all of the rights and protections provided by the 1940 Act. With respect to a mutual fund investment option, an investor should carefully consider the investment objectives, risks, charges and expenses of the investment company before investing. The prospectus for the mutual fund contains this and other important information and should be read carefully before investing or sending money. For prospectuses, please contact Lincoln Alliance's Customer Service Center at: 800-234-3500, or visit its website at: www.LincolnFinancial.com. The prospectus online link can be found in the Historical Fund Performance page below the footnotes.

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

Company Securities. The primary purpose of the LNC Stock Fund is to allow you to invest in the common stock of LNC. For a description of the risks associated with investment in the common stock of LNC, please refer to the Risk Factors in LNC's filings with the SEC incorporated by reference herein (see "Documents Incorporated by Reference" on page 66).

Self-Directed Brokerage Account. On January 7, 2010, the TD AMERITRADE Self-Directed Brokerage Account ("SDBA") option was opened to allow you access to a broad range of investments, such as stocks, bonds and mutual funds. In order to have access to the Plan's SDBA, you must review and complete a number of forms. These forms are available to you to download from the Lincoln Alliance website at www.LincolnFinancial.com.

By establishing a SDBA within the Plan, you acknowledge that you, the Plan participant, and not the Plan fiduciary, are solely responsible for selecting investments through the SDBA, and that the Plan fiduciary has not vetted or screened any investments available through the SDBA.

If you have any questions about the instructions or forms, you can contact the Lincoln Customer Contact Center for assistance at 800-234-3500.

Risks Associated with the Investment Options

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

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

The following are summaries of the Prospectuses and Disclosure Statements related to the current Investment Option lineup. You should read the full Prospectuses and Disclosure Statements for an explanation of the Funds and risks involved in investing in any one of the Funds.

Tier 1 – Asset Allocation Target Date Funds

(Target date funds provide a diversified portfolio that adjusts automatically based on
the number of years remaining until retirement)

SSgA Target Retirement Funds

- Investment Objective: The SSgA Target Retirement Funds (the "Funds") seek an investment return that approximates, as closely as practicable, before expenses, the performance of a custom benchmark index (the "Index") over the long term.

- Investment Strategy: Each Fund seeks to achieve its objective by investing in a set of underlying SSgA collective trust funds representing various asset classes. Each Fund (other than the SSgA Target Retirement Income Fund) is managed to a specific retirement year (target date) included in its name. Over time, the allocation to asset classes and funds change according to a predetermined "glide path". (The glide path represents the shifting of asset classes over time and does not apply to the Income Fund.) Each Fund's asset allocation will become more conservative as it approaches its target retirement date. This reflects the need for reduced investment risks as retirement approaches and the need for lower volatility of a portfolio, which may be a primary source of income after retiring. The allocations reflected in the glide path do not reflect tactical decisions made by SSgA to overweight or underweight a particular asset class based on its market outlook but rather management of each fund's strategic allocation according to its glide path and applicable benchmark. Each Fund attempts to closely match the characteristics and returns of its custom benchmark as opposed to any attempts to outperform this benchmark. Once a Fund reaches its target retirement date, it will begin a five year transition period to the SSgA Target Retirement Income Fund resulting at the end of that five year period in an allocation to stocks and real estate that will remain fixed at approximately 35% of assets. The remainder of the Fund will be invested in fixed-income securities.

- Risk and Return Characteristics: SSgA measures and adjusts each Fund's risk exposure over time given the Fund's target retirement date. SSgA monitors the overall risk of the Fund, in order to avoid unintended risk related to the Fund's target retirement date or other investment time horizon. SSgA attempts to manage risk by, among other things, monitoring asset allocations closely, maintaining diversification, and performing on-going investment reviews.

By investing in a Target Date Fund, you assume the same types of risks, either directly or indirectly, as investing in equity funds and fixed income funds. For assets allocated to equity, the primary risk is that the value of the equity will fluctuate. These fluctuations could cause the value of a Target Date Fund's equity investment and therefore the value of the Target Date Fund held to fluctuate, and you could lose money.

For assets allocated to fixed income, the primary risks are interest rate risk and credit risk. Interest rate risk is the risk that the value of the debt obligations held by the Target Date Fund will fluctuate with changes in interest rates. Credit risk is the risk that the issuer of the debt obligation will be unable to make interest or principal payments on time. The value of the debt obligations held by a Target Date Fund will fluctuate with the changes in the credit ratings of the debt obligations held.

Because the Target Date Fund invests in the shares of funds, the Target Date Fund indirectly invests in the same investments as listed for the various underlying funds. For a more detailed description of the various types of instruments in which the underlying funds may invest and their associated risk, please refer to each of the underlying fund's prospectus.

- Manager: State Street Global Advisors (SSgA)
- Expense: 0.17%.

Target Asset Allocation

	2060	2055	2050	2045	2040	2035	2030	2025	2020	2015	Income
Equity	86.50%	86.50%	86.50%	86.50%	83.75%	78.75%	72.38%	64.50%	51.75%	37.12%	26.50%
SSgA S&P 500 Index Fund	35.90	35.90	35.90	35.90	38.44	34.75	33.12	30.48	25.50	19.18	13.80
SSgA Russell Small/Mid Cap Index Fund	16.00	16.00	16.00	16.00	14.72	12.50	10.43	8.26	5.84	3.60	2.60
SSgA Global All Cap Equity ex U.S. Index Fund	34.60	34.60	34.60	34.60	33.50	31.50	2895	25.76	20.41	14.35	10.10
Fixed Income	10.00%	10.00%	10.00%	10.00%	12.75%	17.75%	24.12%	31.62%	41.88%	54.38%	65.00%
SSgA U.S. Long Government Bond Index Fund	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.25	4.25	0.00	0.00
SSgA U.S. Long Government/Credit Bond Index Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.38	20.00
SSgA U.S. High Yield Bond Index Fund	0.00	0.00	0.00	0.00	0.00	0.00	1.60	4.55	6.00	7.00	7.00
SSgA U.S. Bond Index Fund	0.00	0.00	0.00	0.00	2.75	7.75	11.38	13.88	20.50	24.25	20.00
SSgA U.S. Inflation Protected Bond Index Fund	0.00	0.00	0.00	0.00	0.00	0.00	1.15	3.95	8.88	0.00	0.00
SSgA 1-10 Year U.S. TIPS Index Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.25	18.75	18.00
Alternatives	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.88%	6.38%	8.50%	8.50%
SSgA Global Real Estate Securities Index Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.38	2.88	5.00	5.00
SSgA Bloomberg Roll Select Commodity Index Fund	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

Tier 2 – Passive Core
(Passively managed, low cost index funds that track the returns of a market index)

SSgA US Bond Index Fund – Class C
(Core Fixed Income Index)

- Investment Objective: The SSgA Bond Index Fund (the "Fund") seeks to offer broadly diversified, low cost exposure to the overall U.S. Bond Market. The Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Barclays US Aggregate Bond Index (the "Index") over the long term.

- Investment Strategy: The Fund is managed using a "passive" or "indexing" investment approach, by which SSgA attempts to replicate, before expenses, the performance of the Index. The Fund may attempt to invest in the securities comprising the Index in the same proportions as they are represented in the Index. However, due to the large number of securities in the Index and the fact that many of the securities comprising the Index may be unavailable for purchase, it may not be possible for the Fund to purchase some of the securities comprising the Index. In such a case, SSgA will select securities for the Fund that SSgaA believes will track the characteristics of the Index. The Fund's returns may vary from the returns of the Index. This Fund is passively managed and will not short sell securities; It is not a leveraged strategy and may invest in other investment funds, including those managed by SSgA and its affiliates.

- Risk Management: SSgA monitors the overall risk of the Fund, in order to avoid unintended risk relative to the Index. SSgA manages portfolio characteristics and transaction costs in a manner intended to provide a return as close as practicable to the benchmark return.

There are risks involved with investing, including possible loss of principal. Risks associated with fixed income securities include, but are not limited to, interest rate risks; the risk of issuer default, and inflation risk. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.
Additionally, an investment in the Fund is subject to a number of risks, which include but are not limited to: Call Risk, Cash Position Risk, Conflict of Interest Risk, Counterparty Risk, Credit Risk, Custodial Risk, Debt Securities Risk, Defensive Investing Risk, Derivatives Risk, Extension Risk, Geographic Concentration Risk, Income Risk, Index Risk, Inflation-Indexed Securities Risk, Interest Rate Risk, Investment Risk, Issuer Risk, Large Shareholder Risk, Leveraging Risk, Limited Investment Program Risk, Liquidity Risk, Lower-Rated Securities Risk, Market Risk, Market Disruption and Geopolitical Risk, Mortgage and Other Asset-Backed Securities Risk, Municipal Obligations Risk, Portfolio Turnover Risk, Prepayment Risk, Repurchase Agreement Risk, Risk of Investment in Other Pools, Tax Risk, U.S. Government Securities Risk, Valuation Risk, and Variable and Floating Rate Securities Risk. You should refer to the Fund's Disclosure Document for a complete description of the risks of investing in the Fund.
Risk management does not promise any level of performance or guarantee against loss of principal. SSgA encourages investors to seek the advice of well-qualified financial and tax advisors, accountants, attorneys and other professionals before making any investment or retirement decision.

- Manager: State Street Global Advisors (SSgA)
- Expense: 0.06%.

SSgA Russell Large Cap Index Fund – C
(Large Cap Core Index)

- Investment Objective: The SSgA Russell Large Cap Index Fund (the "Fund") seeks to offer broad, low cost exposure to the stocks of large U.S. Companies. The Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Russell 1000® Index (the "Index") over the long term.

- Investment Strategy: The Fund is managed using a "passive" or "indexing" investment approach, by which SSgA attempts to match, before expenses, the performance of the Index. SSgA will typically attempt to invest in the securities comprising

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the Index in the same proportion as they are represented in the Index. In some cases, it may not be possible or practicable to purchase all of the securities comprising the Index, or to hold them in the same weightings as they represent in the Index. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolio in question. The Fund's returns may vary from the returns of the Index.

From time to time SSgA may purchase securities that are not yet represented in the Index or sell securities that have not yet been removed from the Index.

This Fund is passively managed and will not short sell securities. It uses futures and may use other derivatives and is not a leveraged strategy. It may invest in other investment funds, including those managed by SSgA and its affiliates.

- Risk Management: SSgA monitors the overall risk of the Fund, in order to avoid unintended risk relative to the Index. SSgA manages portfolio characteristics and transaction costs in a manner intended to provide a return as close as practicable to the benchmark return.

There are risks involved with investing, including possible loss of principal. Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions.

Additionally, an investment in the Fund is subject to a number of risks, which include but are not limited to: Conflict of Interest Risk, Counterparty Risk, Custodial Risk, Derivatives Risk, Equity Risk, Geographic Concentration Risk, Growth Investing Risk, Hedging Transactions and Related Risks, Index Risk, Investment Risk, Issuer Risk, Large Shareholder Risk, Leveraging Risk, Limited Investment Program Risk, Liquidity Risk, Market Capitalization Risk, Market Disruption and Geopolitical Risk, Market Risk, Modeling Risk, Portfolio Turnover Risk, Repurchase Agreement Risk, Risk of Investment in Other Pools, Small and Micro-Cap Companies Risk, Tax Risk, Valuation Risk, and Value Investing Risk. You should refer to the Fund's Disclosure Document for a complete description of the risks of investing in the Fund.

Risk management does not promise any level of performance or guarantee against loss of principal. SSgA encourages investors to seek the advice of well-qualified financial and tax advisors, accountants, attorneys and other professionals before making any investment or retirement decision.

- Manager: State Street Global Advisors (SSgA)
- Expense: 0.05%.

SSgA Russell Small/Mid Cap Index Fund – C
(Small-Mid Cap Index)

- Investment Objectives: The SSgA Russell Small/Mid Cap Index Fund (the "Fund") seeks to offer broad, low cost exposure to stocks of small and medium sized U.S. Companies. The Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Russell Small Completeness® Index (the "Index") over the long term.
- Investment Strategies: The Fund is managed using a "passive" or "indexing" investment approach, by which SSgA attempts to match, before expenses, the performance of the Index. SSgA will typically attempt to invest in the securities comprising the Index in the same proportions as they are represented in the Index. In some cases, it may not be possible or practicable to purchase all of the securities comprising the Index, or to hold them in the same weightings as they represent in the Index. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolio in question. The Fund's returns may vary from the returns of the Index.

From time to time SSgA may purchase securities that are not yet represented in the index or sell securities that have not yet been removed from the Index.

This Fund is passively managed and will not short sell securities. It uses futures and may use other derivatives and is not a leveraged strategy. It may invest in other investment funds, including, including those managed by SSgA and its affiliates.

- Risk Management: SSgA monitors the overall risk of the Fund, in order to avoid unintended risk relative to the Index. SSgA manages portfolio characteristics and transaction costs in a manner intended to provide a return as close as practicable to the benchmark return.

There are risks involved with investing, including possible loss of principal. Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions.

Additionally, an investment in the Fund is subject to a number of risks, which include but are not limited to: Conflict of Interest Risk, Counterparty Risk, Custodial Risk, Derivatives Risk, Equity Risk, Geographic Concentration Risk, Growth Investing Risk, Hedging Transactions and Related Risks, Index Risk, Investment Risk, Issuer Risk, Large Shareholder Risk, Leveraging Risk, Limited Investment Program Risk, Liquidity Risk, Market Capitalization Risk, Market Disruption and Geopolitical Risk, Market Risk, Modeling Risk, Portfolio Turnover Risk, Repurchase Agreement Risk, Risk of Investment in Other Pools, Small and Micro-Cap Companies Risk, Tax Risk, Valuation Risk, and Value Investing Risk. You should refer to the Fund's Disclosure Document for a complete description of the risks of investing in the Fund.

Risk management does not promise any level of performance or guarantee against loss of principal. SSgA encourages investors to seek the advice of well-qualified financial and tax advisors, accountants, attorneys and other professionals before making any investment or retirement decision.

- Manager: State Street Global Advisors (SSgA)
- Expense: 0.06%.

SSgA Global Equity All Cap/ex-US Index Fund – Class C
(International Index)

- Investment Objectives: The SSgA Global Equity All Cap Equity ex U.S. Index Fund (the "Fund") seeks to offer broad, low cost exposure to stocks of companies, ranging from small to large cap, in developed and emerging countries excluding the United States. The Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the MSCI ACWI ex-USA IMI Index (the "Index") over the long term.
- Investment Strategies: The Fund is managed using a "passive" or "indexing" investment approach, by which SSgA attempts to match, before expenses, the performance of the Index. SSgA will typically attempt to invest in the securities comprising the Index in the same proportions as they are represented in the Index. In some cases, it may not be possible or practicable to purchase all of the securities comprising the Index, or to hold them in the same weightings as they represent in the Index. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolio in question. The Fund's returns may vary from the returns of the Index. From time to time SSgA may purchase securities that are not yet represented in the index or sell securities that have not yet been removed from the Index.

This Fund is passively managed and may use futures and other derivatives. It may invest in other investment pools, including those managed by SSgA and its affiliates. It is not a leveraged strategy and will not sell securities short.

- Risk Management: SSgA monitors the overall risk of the Fund, in order to avoid unintended risk relative to the Index. SSgA manages portfolio characteristics and transaction costs in a manner intended to provide a return as close as practicable to the benchmark return.

There are risks involved with investing, including possible loss of principal. Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Additionally, an investment in the Fund is subject to a number of risks, which include but are not limited to: Conflict of Interest Risk, Counterparty Risk, Currency Risk, Custodial Risk, Depositary Receipts Risk, Derivatives Risk, Emerging Markets Risk, Equity Risk, Geographic Concentration Risk, Index Risk, Investment Risk, Issuer Risk, Leveraging Risk, Limited Investment Program Risk, Liquidity Risk, Market Capitalization Risk, Market Risk, Non-US Securities Risk, Portfolio Turnover Risk, Risk of Investment in Other Pools, Small Companies Risk, Tax Risk, and Valuation Risk. You should refer to the Fund's Disclosure Document for a complete description of the risks of investing in the Fund. Risk management does not promise any level of performance or guarantee against loss of principal. SSgA encourages investors to seek the advice of well-qualified financial and tax advisors, accountants, attorneys and other professionals before making any investment or retirement decision.

- Manager: State Street Global Advisors (SSgA)
- Expense: 0.18%.

Tier 3 – Active Core
(Actively managed investment options with a variety of objectives ranging
from conservative to aggressive)

The Lincoln Stable Value Account (Insured Product)
(Capital Preservation)

- Investment Objectives: This Investment Option seeks to provide a competitive current interest rate that translates into the highest possible return with the lowest level of risk while also offering the protection of principal. Contributions made to the Lincoln Stable Value Account in any quarter will earn interest at the quarterly-set portfolio rate. The portfolio rate is declared for the quarter and is in effect only for that quarter. The rate of return as of September 30, 2015 was 3.0%. The rate of return is fixed quarterly (and is based on the 5-year average of the Barclays Stable Income Market Index plus 0.20 as of one month prior to the beginning of each quarter) but will never fall below the guaranteed minimum annual rate of 3.0%.
- Investment Strategies: The Lincoln Stable Value Account, a fixed annuity, is part of the general account of The Lincoln National Life Insurance Company and is backed by the general credit worthiness and the claims paying ability of The Lincoln National Life Insurance Company. The general account invests in investment and non-investment grade public companies, U.S. government bonds, high-quality corporate bonds, and other high-quality asset classes in keeping with the investment policy statement for the portfolio.
- Primary Risks: Credit Risk (the chance that the issuer of a security will fail to pay interest and principal in a timely manner, or that such companies or individuals will be unable to pay the contractual interest or principal on their debt obligations at all); Inflation Risk (the possibility that, over time, the returns will fail to keep up with the rising cost of living); Interest Rate Risk (the chance that bond prices overall will decline over short or even long periods due to rising interest rates); Liquidity Risk (the chance that the insured product is not backed by sufficient reserves to meet participant withdrawals, or would incur a market value adjustment or penalty for early withdrawal from one or more of its contracts); Manager Risk (the chance that poor security selection will cause the Stable Value Fund to under-perform other stability of principal investment options with similar objectives); Market Risk (the chance that the value of your investment will change because of rising (or falling) stock or bond prices). There is no government guarantee (such as the FDIC guarantee) protecting investments in the Lincoln Stable Value Account.
- Manager: Delaware Investment Advisers, a series of Delaware Management Business Trust, is the registered investment advisor.
- Expense: No asset charges are deducted from participant accounts. 0.10% is paid by The Lincoln National Life Insurance Company to Delaware Investment Advisers as a management fee and has effectively reduced the rate of return from the three-year average of the Barclays Capital Intermediate U.S. Government/Credit Index, plus 0.29% to that rate of return plus 0.20%.

Delaware Diversified Income Trust (Collective Investment Trust)
(Fixed Income)

- Investment Objectives: The Delaware Diversified Income Trust (the "Fund") seeks maximum long-term total return, consistent with reasonable risk. The benchmark for the Trust is Barclays Capital U.S. Aggregate Index.
- Investment Strategies: The Fund allocates its investments principally among the following four sectors of the fixed income securities markets: U.S. investment grade, U.S. high yield, international developed markets, and emerging markets. Under normal circumstances, the Trust will invest at least 80% of its net assets in fixed income securities (the 80% policy). Delaware Investment Advisers will determine how much of the Trust to allocate to each of the four sectors, based on its evaluation of economic and market conditions and an assessment of the returns and potential for appreciation that can be achieved from investments in each of the four sectors. There is no guarantee that the Trust will meet its investment objectives.

- Primary Risks: The Fund has significant exposure to Credit Risk, Currency Risk, Derivatives Risk, Forward Foreign Currency Contract Risk , High Yield Fixed Income Securities Risk, Interest Rate Risk, International Risk, Investment Strategy Risk, Liquidity Risk, Loans and Other Indebtedness Risk, Market Risk, Pre-payment Risk , and Valuation Risk. For specific definitions/explanations of these types of risks, see the Delaware Declaration of Trust posted on the Lincoln Alliance website at www.LincolnFinancial.com, or you can request a copy by calling the Lincoln Customer Contact Center at 1-800-234-3500. In general, investments in the Delaware Diversified Income Trust are subject to the risk that the portfolio, particularly with longer maturities, will decrease in value if the interest rates rise. High-yielding, non-investment grade bonds ("junk bonds") involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Securities of issuers from emerging market countries may be more volatile, less liquid, and generally more risky than investments in issuers from more developed foreign countries. Diversification does not ensure a profit or guarantee against a loss. The Trust will also be affected by prepayment risk due to its holdings of mortgage-backed securities. With prepayment risk, when homeowners prepay mortgages during periods of low interest rates, the Trust may be forced to redeploy its assets in lower yielding securities. If, and to the extent that, the Trust invests in forward foreign currency contracts or uses other investments to hedge against currency risks, the Trust will be subject to the special risks associated with those activities.
- Manager: SEI Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains the ultimate fiduciary authority over the management of investments in the Trust. The Trustee has engaged DIA, a series of Delaware Management Business Trust, to act as the investment sub-advisor to the Trust.
- Expense: 0.45%.

PIMCO Diversified Real Asset Collective Trust
(Real Return)

- Investment Objective: The objective of the PIMCO Diversified Real Asset Collective Trust (the "Fund") is to seek real return which exceeds that of a benchmark consisting of a 1/3 weighting in the Barclays Capital U.S. TIPS Index, a 1/3 weighting in the Dow Jones-UBS Commodity Index^{sm}, and a 1/3 weighting in the Dow Jones U.S. Real Estate Investment Trust Index (the "Benchmark"), consistent with prudent investment management. The Fund seeks to achieve its objective by investing under normal circumstances substantially all of its assets in units of the PIMCO Real Return Collective Trust II, the PIMCO CommoditiesPLUS® Collective Trust and the PIMCO RealEstatePLUS Collective Trust (the "Underlying Funds"). The Fund's return objective is to outperform the Benchmark measured over a full business cycle. There is no assurance that these objectives will be achieved. For more information regarding the Underlying Funds, please refer to the Underlying Funds' investment objectives and policies contained in this Disclosure Memorandum.
- Investment Strategies: The Fund is an actively managed portfolio designed to provide strategic exposure to three core real assets. Treasury Inflation-Protected Securities, commodities and real estate. The Fund seeks to outperform its Benchmark in two key ways. First, PIMCO has the flexibility to reallocate the Fund's assets among the three real asset classes represented by the Underlying Funds based on its ongoing analyses of the global macro economy, including the fixed income, commodity, real estate and equity markets. As a result, the percentage invested by the Fund in each Underlying Fund may differ from the Benchmark weight of 1/3 each. Second, PIMCO will gain expose to these markets by investing in the three Underlying Funds, which are each actively managed to outperform their respective underlying benchmarks. In managing the Fund, PIMCO employs both top-down and bottom-up strategies.
- Primary Risks: The principal risks of investment in the Fund, which could adversely affects its value, yield and total return are: Market Risk, Investment Adviser/Trustee Risk, Call Risk, Derivatives Risk, Turnover Risk, Counterparty Risk, Leveraging Risk, Allocation Risk, Industry/Sector Risk, Interest Rate Risk, High Yield Risk, Emerging Markets Risk, Newly Formed Fund Risk, Short Sale Risk, Conflicts of Interest Risk, Underlying Fund Risk, Issuer Risk, Credit Risk, International Risk, Liquidity Risk, Currency Risk, Mortgage-related and Asset-backed Risk, Commodity Risk, and Real Estate Risk.
- Manager: PIMCO

·Expense: 0.65%.

Delaware Large Cap Value Trust (Collective Investment Trust)
(Large Cap Value)

- Investment Objectives: The Trust seeks long-term capital appreciation. The benchmark for this Trust is the Russell 1000® Value Index.
- Investment Strategies: The Trust is invested primarily in securities of large-capitalization companies (with market capitalizations in the range of the Russell 1000.) The Trust's adviser, Delaware Investment Advisers ("DIA"), seeks securities believed to be undervalued in relation to their intrinsic value as indicated by multiple factors including earnings and cash flow potential. DIA follows a value-oriented investment philosophy in selecting stocks for the Trust using a research intensive approach.
- Primary Risks: Conflict of Interest Risk, Currency Risk, Derivatives Risk, Interest Rate Risk, International Risk, Investment Strategy Risk, Liquidity Risk, Market Risk. For specific definitions/explanations of these types of risks, see the Delaware Declaration of Trust posted on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- Manager: SEI Trust Company ("Trustee") serves as the Trustee of the Trust and maintains the ultimate fiduciary authority over the management of investments in the Trust. The Trustee has retained DIA, a series of Delaware Management Business Trust, to act as the investment advisor to the Trust.
- Expense: 0.70%. The Trust will be charged with certain operating expenses, including, without limitation, audit expenses, custody services fees, tax form preparation expenses, legal and other fees.

Delaware Large Cap Growth Trust (Collective Investment Trust)
(Large Cap Growth)

- Investment Objectives: The Trust seeks long-term capital appreciation. The benchmark for this Trust is the Russell 1000® Growth Index.
- Investment Strategies: The Trust is invested primarily in large cap common stocks with market capitalizations generally in the range of the companies in the Russell 1000® Growth Index at the time of purchase. Investments that the investment advisor, Delaware Investment Advisers believes have the potential for sustainable free cash flow growth.
- Primary Risk: Conflicts of Interest Risk, Credit Risk, Currency Risk, Derivatives Risk, International Risk, Investment Strategy Risk, Liquidity Risk, and Market Risk. For specific definitions/explanations of these types of risks, see the Delaware Declaration of Trust posted on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- Manager: SEI Trust Company ("Trustee") serves as the Trustee of the Trust and maintains the ultimate fiduciary authority over the management of investments in the Trust. The Trustee has retained, Delaware Investment Advisers, a series of Delaware Management Business Trust, to act as the investment advisor to the Trust.
- Expense: 0.70%. The Trust will be charged with certain operating expenses, including, without limitation, audit expenses, custody service fees, tax form preparation expenses, retirement plan platform fees, legal and other fees.

American Funds Growth Fund of Amer R6 (Mutual Fund)
(Large Cap Growth)

- Investment Objectives: The Fund seeks to provide growth of capital. The benchmark for this Fund is the S&P 500. The S&P 500 is a market-capitalization-weighted index of the stocks of 500 leading companies in major industries of the U.S. economy that measures the performance of S&P 500 companies that exhibit strong growth characteristics, including higher earnings growth rates.
- Investment Strategies: The Fund invests primarily in common stocks of companies that appear to offer superior opportunities for growth of capital. The Fund may also hold cash or money market instruments. The Fund may invest a portion of its assets in securities of issuers domiciled outside the United States.
- Primary Risks: Market Risk. The prices of, and the income generated by, the common stocks and other securities held by the fund may decline due to market conditions and other factors, including those directly involving the

issuers of securities held by the fund. Investing in growth-oriented stocks. Growth-oriented stocks may involve larger price swings and greater potential for loss than other types of investments. Investing outside of the United States. Securities of issuers domiciled outside the United States, or with significant operations outside the United States, may lose value because of political, social, economic or market developments or instability in the countries or regions in which the issuer operates. The prospectus can be found on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.

- Manager: Capital Research and Management Company is the registered investment advisor.
- Expense: 0.34%.

Boston Co. US Small Mid-Cap Value Equity
(Small-Mid Cap Equity Value)

- Investment Objectives: The Boston Company Asset Management's US Small Mid-Capitalization Value Equity strategy seeks to outperform the Russell 2500 Value Index over a long-term investment horizon.
- Investment Strategies: The US Small Cap Value Equity strategy primarily invests in small and mid-capitalization U.S. value companies. Small and mid-capitalization companies are those within the same general market cap range as the issuers included in the benchmark. The strategy can invest in American Depository Receipts. The use of derivatives is permitted.
- Primary Risks: Equity Securities generally; Issuer risk; Liquidity risk; Market risk; Micro, Small and Medium Capitalization Companies; Sector allocation risk; and Participant concentration risk. For specific definitions/explanations of these types of risks, see the CIT Fund Disclosures posted on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- Manager: The Boston Company Asset Management, LLC.
- Expense: 0.70%.

Delaware Smid Cap Growth Trust (Collective Investment Trust)
(Small-Mid Cap Equity Growth)

- Investment Objectives: The Trust seeks long term capital appreciation by investing primarily in common stocks of growth oriented companies The Trust's benchmark is the Russell 2500® Growth Index.
- Investment Strategies: The Trust invests primarily in common stocks of growth-oriented companies that the adviser believes have long-term capital appreciation potential and expects to grow faster than the U.S. economy. The adviser particularly seeks the small- to mid-sized companies that address large market opportunities, which it defines as the likelihood that an individual company's goods and/or services will be sold. The adviser uses the bottom up approach, seeking to select securities of companies, the adviser believes have attractive end market potential, dominant business models, and strong cash flow generation that are attractively priced compared to intrinsic value of the securities. The adviser also considers a company's operational efficiencies, management's plans for capital allocation, and the company's shareholder orientation.

The Trust generally holds 25 to 30 stocks, although from time to time it may hold fewer or more names, depending upon the adviser's assessment of the investment opportunities available.

- Primary Risks: Conflicts of Interest Risk, Credit Risk, Currency Risk, Derivative Risk, Industry/Sector Risk, International Risk, Interest Rate Risk, Investment Strategy Risk, Limited Number of Securities Risk, Liquidity Risk, Market Risk, Small- and Medium-size company Risk. For specific definitions/explanations of these types of risks, see the Delaware Trust Agreement posted on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- Manager: SEI Trust Company (the "Trustee") serves as the Trustee of the Trust and maintains the ultimate fiduciary authority over the management of investments in the Trust. The Trustee has retained DIA, a series of Delaware Management Business Trust, to act as the investment adviser to the Trust.
- Expense: 0.80%.

Dodge & Cox International Stock Fund (Mutual Fund)
(International Equity Value)

- Investment Objectives: The Fund seeks long-term growth of principal and income. The Fund's benchmark is the MCSI EAFE (Europe, Australasia, Far East Index). The MSCI EAFE is an unmanaged index of the world's stock markets, excluding the United States.

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- Investment Strategies: The Fund invests primarily in a diversified portfolio of equity securities issued by non-U.S. companies from at least three different countries, including emerging markets. The Fund considers economic and political stability of a country and protection provided to foreign shareholders. The Fund invests primarily in medium-to-large well established companies based on standards of the applicable market.
- Primary Risks: Equity Risk, Issuer Risk, Liquidity Risk, Management Risk, Market Risk, Non-U.S. Investment Risk, Non-U.S. Currency Risk, Non-U.S. Issuer Risk. For specific definitions/explanations of these types of risks, please see the prospectus for this Fund. The prospectus can be found on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- In general, foreign investing, especially in developing countries, has special risks such as currency and market volatility and political and social instability. These and other risk considerations are discussed in the Fund's prospectus.
- Manager: Dodge & Cox is the registered investment advisor.
- Expense: 0.64%

MFS International Growth Fund (CIT)
(International Equity Growth)

- Investment Objectives: The Fund's investment objective is to seek capital appreciation. The Fund seeks to outperform the MSCI All Country World (ex-US) Growth Index over full market cycles. A full market cycle is defined as typically three to five years. MSCI All Country World (ex-US) Growth Index is a market capitalization index that is designed to measure equity market performance for growth securities in the global developed and emerging markets, excluding the U.S. No assurance can be given that the Fund will achieve it investment objective.
- Investment Strategies: In seeking to achieve its investment objective, the Fund relies on a team of global research analysts to identify companies with the highest sustainable earnings growth rates in their industry, companies that are expected to deliver value through the continued compounding of a growing earnings stream, and companies whose stocks are poised for multiple expansions. Sector and country weightings are the residual of the bottom-up stock selection process, rather than the result of a top-down, macroeconomic outlook. The Fund seeks to be broadly diversified across countries and sectors.
- Primary Risks: Stock Market Risk, Company Risk, Currency Risk, Geographic Concentration Risk, Foreign, Risk, Emerging Markets Risk, Investment Selection Risk, Counterparty and Third Party Exposure Risk, Liquidity Risk and Active and Frequent Trading Risks and Temporary Defensive Strategy Risk. For specific definitions/explanations of these types of risks, see the MFS Trust and Fund Disclosures posted on www.LincolnFinancial.com or call the Lincoln Customer Contact Center at 1-800-234-3500.
- Manager: MFS Heritage Trust Company (the "Trustee") serves as the Trustee of the Trust. The Trustee is a subsidiary of Massachusetts Financial Service Company.
- Expense: 0.80%. 0.75% Management Fee plus 0.05% Administrative Fee. The Trustee will bear the Fund's expenses such that a Fund's annual administrative and operational expenses do not exceed the indicated expense caps as currently in effect (0.05%). The expense caps will continue until modified by the Trustee.

LNC Stock Fund

- Investment Objectives: This Investment Option is referred to as an Employee Stock Ownership Plan. It is designed to provide participants with the opportunity to invest in LNC securities.

- Investment Strategies: To achieve its objective, this Investment Option invests mainly in shares of the common stock of LNC ("LNC Common Stock"), but may also invest in cash or short-term money-market securities to provide the liquidity and flexibility necessary to sell or exchange units of the fund quickly and easily, generally on a daily basis. When the amount of short-term investments in the Fund fall outside the range of 2.5% to 3.5% of its net assets, LNC Common Stock is either bought or sold to bring the short-term investments back into the target range.

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Primary Risks: Inflation Risk; Investment-Style Risk; Market Risk. This is a non-diversified Investment Option, investing in the stock of a single issuer. It is therefore a riskier investment than an Investment Option that invests in a diversified pool of stocks of companies with similar characteristics as this account. For a description of the risks associated with investment in LNC Common Stock, see "Risk Factors" detailed in the most recently filed LNC Annual Report (10-K) or LNC Quarterly Report (10-Q). It is a market-valued account, meaning that both the principal value and the investment return may go up and down based on the market price of the LNC Common Stock held in the Fund. For a more detailed description of LNC Common Stock. See "Lincoln National Corporation Common Stock" below.

- Dividends: You have the option to receive your LNC Stock Fund dividends in cash or to reinvest them. Dividends paid with respect to your investment in the fund will be automatically reinvested and no action is required if you wish to reinvest your dividends. If you choose to receive your dividends in cash, Lincoln Financial Group Trust Company, Inc. will pay your dividends by check as soon as administratively practicable after the dividend payment date. Only dividends from your investments in the LNC Stock Fund that have been in the Plan for at least two years can be distributed in cash.

  If you are currently invested in the LNC Stock Fund, and would like to receive dividends in cash, you may change the default dividend reinvestment option by calling the Lincoln Customer Contact Center at 1-800-234-3500. Changes made by 4 p.m. (Eastern Time) on the last business day before dividends are paid will be applied to the dividends payable on February 1, May 1, August 1, and November 1. You may change this election as often as you wish, but only the last election on file before the deadline for the applicable dividend payment date will control.

You should be aware that choosing to receive your dividends in cash may result in a lower account value upon retirement, due to fewer assets in the Plan and diminished ability to leverage the power of pre-tax compounding of earnings.

- Share Ownership: The LNC Stock Fund is a "unitized" stock fund and is the way you can invest in LNC Common Stock within the Plan. When investing in the LNC Stock Fund, you are purchasing units of the Fund, not actual shares of stock; the Fund owns actual shares of stock.

The "units" you own represent your pro-rata share of the Fund's total assets. The Plan's trustee determines the unit value daily using the values of the underlying assets at the daily closing price of each asset. The same economic or market conditions and trends that cause the price of LNCs Common Stock to fluctuate will similarly influence the unit price of the LNC Stock Fund, although the LNC Stock Fund's unit price and the market price of LNC Common Stock are likely to be different. Additionally, the percentage of short-term investments being held, bought or sold by the fund and any gains/losses realized on the sales of LNC Common Stock impact the investment returns of the unitized LNC Stock Fund.

You may become a direct owner of shares of LNC Common Stock through the Plan only when you take a withdrawal or distribution and elect to receive shares of LNC Common Stock.

- Share Voting Rights: If you invest in this Investment Option, you will have "pass-through voting rights." This means that Lincoln Financial Group Trust Company, Inc. will vote the shares in the manner that you direct, if you sign and return the proxy card in time. You will have voting rights for the number of shares in this Investment Option that is proportionate to the size of your investment. Otherwise, Lincoln Financial Group Trust Company, Inc. will vote your interest in the Investment Option in the same proportion as the other Plan participants who voted.

- Trading Restrictions: Officers of LNC and certain other participants of LNC ("Restricted Employees") with access to inside information are subject to regular quarterly trading restrictions imposed by LFG's "Insider Trading and Confidentiality Policy" on any transaction, except normal payroll deductions, that might cause an increase or decrease in that person's interest in the Fund. Except for trading under a written securities trading plan meeting the requirements of Rule 10b5-1, Restricted Employees may only engage in transactions to increase or decrease their interest in LNC Stock Fund during previously announced open window trading periods. Other participants may also be subject to trading restrictions under the Policy.

- Account Manager: Lincoln Financial Group Trust Company
- Expense: 0.00%.

Brokerage Account

On January 7, 2010, the TD AMERITRADE Self-Directed Brokerage Account ("SDBA") option was opened to allow you access to a broad range of investments, such as stocks, bonds and mutual funds. In order to have access to the Plan's SDBA, you must review

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and complete a number of forms. These forms are available to you to download from the Lincoln Alliance website at (www.LincolnFinancial.com).

By establishing a SDBA within the Plan, you acknowledge that you, the Plan participant, and not the Plan fiduciary, are solely responsible for selecting investments through the SDBA, and that the Plan fiduciary has not vetted or screened any investments available through the SDBA.

A quarterly maintenance fee will be deducted for investments in your SDBA.

If you have any questions about the instructions or forms, you can contact the Lincoln Customer Contact Center for assistance at 800 234-3500.

PLAN INTERESTS ARE SECURITIES

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

LINCOLN NATIONAL CORPORATION COMMON STOCK
AND PREFERRED STOCK

General
Our articles of incorporation currently authorize the issuance of 800,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. We may issue our Preferred Stock from time to time in one or more series by resolution of our board of directors. At November 16, 2015, we had issued and outstanding 247,507,907 shares of Common Stock.

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

Common Stock

Transfer Agent and Registrar. Our Common Stock is traded on the New York Exchange under the symbol "LNC." The registrar and transfer agent is Wells Fargo Shareowner Services.

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

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

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

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

Preferred Stock

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

Shares Outstanding. We currently have no shares of Preferred Stock outstanding.
Anti-Takeover Considerations
Certain Provisions of LNC's Restated Articles of Incorporation.
Our restated articles of incorporation provide that the affirmative vote of the holders of three-fourths of our voting stock is required to amend Article III, which deals with the number, classification, qualifications and removal of directors. Article III provides that the number of directors may be fixed in the bylaws, that qualifications for directors may be set in the bylaws, and that the bylaws may provide for classification of our board of directors. The bylaws can be amended only by action of our board of directors or by the shareholders subject to certain limitations set forth in Article III. Article III also provides that directors can be removed, with or without cause, at a meeting of shareholders called expressly for that purpose upon the affirmative vote of the holders of at least three-fourths of our voting stock. The provisions of Article III requiring the affirmative vote of three-fourths of our voting stock to amend Article III could make it difficult for the shareholders to change the existing provisions of that article, which, in turn, could discourage proxy contests and tender offers and make it more likely that incumbent directors will maintain their positions.
Article IV of our restated articles of incorporation also provide that no shares of the common stock of The Lincoln National Life Insurance Company, our primary insurance subsidiary, may be sold, leased, exchanged, mortgaged, pledged or otherwise disposed of except by the vote of the holders of three-fourths of our shares outstanding and entitled to vote thereon at an annual or special meeting of shareholders.
Article V of our restated articles of incorporation contains a "fair price" provision which requires, subject to certain exceptions, the holders of at least three-fourths of our voting stock to approve certain kinds of business combinations involving LNC and any shareholder holding 10% or more of our voting stock or certain affiliates of that shareholder unless:

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

In either of these cases, only the normal shareholder and director approval requirements of the IBCL would govern the transaction. The "fair price" provision may be amended or repealed only upon the affirmative vote of the holders of at least three-fourths of our voting stock. The "fair price" provision is intended to increase the likelihood that all our shareholders will be treated similarly if certain kinds of business combinations are affected. The "fair price" provision may have the effect of making a takeover of us more expensive and may therefor discourage tender offers for less than three-fourths of our stock and acquisitions of substantial blocks of our stock with a view to acquiring control of us.
Certain State Law Provisions.
Chapter 43 of the IBCL also restricts business combinations with interested shareholders. It prohibits certain business combinations, including mergers, sales of assets, recapitalizations, and reverse stock splits, between certain corporations having 100 or more shareholders that also have a class of voting shares registered with the SEC under Section 12 of the Securities Exchange Act of 1934 (which includes us) and an interested shareholder, defined as the beneficial owner of 10% or more of the voting power of the outstanding voting shares of that corporation, for five years following the date the shareholder acquired such 10% beneficial ownership, unless the acquisition or the business combination was approved by the board of directors in advance of that date. If the combination was not previously approved, the interested shareholder may effect a combination after the five-year period only if the shareholder receives approval from a majority of the disinterested shares or the offer meets certain fair price criteria. A corporation may elect to opt out of these provisions in an amendment to its articles of incorporation approved by a

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

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

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

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

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

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

EXPERTS

The financial statements of the LNL Agents' 401(k) Savings Plan appearing in the LNL Agents' 401(k) Savings Plan's Annual Report (Form 11-K) for the year ended December 31, 2014, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. In addition, the consolidated financial statements of Lincoln National Corporation appearing in Lincoln National Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 (including schedules appearing therein) and the effectiveness of Lincoln National Corporation's internal control over financial reporting as of December 31, 2014, have been audited by Ernst & Young LLP, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements and the effectiveness of our internal control over financial reporting as of the respective dates (to the extent covered by consents filed with the Securities and Exchange Commission) given on the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

The validity of our Common Stock offered hereby will be passed upon for us by Marcie J. Weber, Esquire, Vice President and Senior Counsel of LNC. As of November 16, 2015, Ms. Weber beneficially owned approximately 4,200 shares of our Common Stock including options exercisable within sixty (60) days of the date of the Registration Statement. The validity of the interests in the Plan to which this prospectus relates will be passed upon for the Plan by

Andrew J. Scanlon, Esquire, Assistant Vice President and Senior Counsel of LNC.
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WHERE YOU CAN FIND MORE INFORMATION

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014;

- Our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2015;

- Our Current Reports on Form 8-K filed with the SEC on March 3, March 10, May 22, September 21, and October 5, 2015;

- The description of our common stock contained in Form 10 filed with the SEC on April 28, 1969, including any amendments or reports filed for the purpose of updating that description; and

- LNL Agents' 401(k) Savings Plan's Annual Report on Form 11-K for the fiscal year ended December 31, 2014.

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

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

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LNL Agents' 401(k) Savings Plan
Financial Statements and Supplemental Schedule
Years Ended December 31, 2014, 2013 and 2012

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The financial statements for the LNL Agents' 401(k) Savings Plan are incorporated by reference from the Plan's Annual Report on Form 11-K for the fiscal year ended December 31, 2014.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

Set forth below are estimates of all expenses incurred or to be incurred by us in connection with the issuance and distribution of our Common Stock to be registered, other than underwriting discounts and commissions of which there are none.

Registration fees	$18,953
Photocopying and Printing	5,000
Accounting fees	10,000
Miscellaneous	-0-
TOTAL	$33,953

Item 15. Indemnification of Directors and Officers

Our bylaws, pursuant to authority contained in the Indiana Business Corporation Law and the Indiana Insurance Law, respectively, provide for the indemnification of our officers, directors and employees against the following:

· reasonable expenses (including attorneys' fees) incurred by them in connection with the defense of any action, suit or proceeding to which they are made or threatened to be made parties (including those brought by, or on behalf of us) if they are successful on the merits or otherwise in the defense of such proceeding except with respect to matters as to which they are adjudged liable for negligence or misconduct in the performance of duties to their respective corporations.

· reasonable costs of judgments, settlements, penalties, fines and reasonable expenses (including attorneys' fees) incurred with respect to, any action, suit or proceeding, if the person's conduct was in good faith and the person reasonably believed that his/her conduct was in our best interest. In the case of a criminal proceeding, the person must also have reasonable cause to believe his/her conduct was lawful.

Indiana Law requires that a corporation, unless limited by its articles of incorporation, indemnify its directors and officers against reasonable expenses incurred in the successful defense of any proceeding arising out of their serving as a director or officer of the corporation.

No indemnification or reimbursement will be made to an individual judged liable to us, unless a court determines that in spite of a judgment of liability to the corporation, the individual is reasonably entitled to indemnification, but only to the extent that the court deems proper. Additionally, if an officer, director or employee does not meet the standards of conduct described above, such individual will be required to repay us for any advancement of expenses it had previously made.

In the case of directors, a determination as to whether indemnification or reimbursement is proper will be made by a majority of the disinterested directors or, if it is not possible to obtain a quorum of directors not party to or interested in the proceeding, then by a committee thereof or by special legal counsel. In the case of individuals who are not directors, such determination will be made by the chief executive officer of the respective corporation, or, if the chief executive officer so directs, in the manner it would be made if the individual were a director of the corporation. Our non-employee directors also have agreements providing similar indemnification as set forth above.

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

We maintain a program of insurance under which our directors and officers are insured, subject to specified exclusions and deductible and maximum amounts, against actual or alleged errors, misstatements, misleading statements, acts or omissions, or neglect or breach of duty while acting in their respective capacities for us.

The indemnification and advancement of expenses provided for in our bylaws does not exclude or limit any other rights to indemnification and advancement of expenses that a person may be entitled to other agreements, shareholders' and board resolutions and our articles of incorporation.

Item 16. Exhibits.

The exhibits filed with this Registration Statement are listed in the Exhibit Index which is incorporated herein by reference.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimate maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however , that paragraphs (a)(i), (a)(ii) and (a)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(b) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time be deemed to be the initial bona fide offering thereof.

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
(d) That, for the purpose of determining liability under the Securities Act to any purchaser:

(i) Each prospectus filed by a Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(e) That, for the purpose of determining liability of a Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, each undersigned Registrant undertakes that in a primary offering of securities of an undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of an undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of an undersigned Registrant or used or referred to by an undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about an undersigned Registrant or its securities provided by or on behalf of an undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by an undersigned Registrant to the purchaser.

(f) That, for purposes of determining any liability under the Securities Act of 1933, each filing of Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of and employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

(h) Each undersigned Registrant hereby undertakes that:

(i) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrants pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(ii) The purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3, and has duly caused this Registration Statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Radnor, Commonwealth of Pennsylvania, on the 19th day of November, 2015.

LINCOLN NATIONAL CORPORATION

By: /s/ Randal J. Freitag
Randal J. Freitag, Executive Vice President
and Chief Financial Officer

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

Signature	Title	Date
Dennis R. Glass*	President and Chief Executive Officer (Principal Executive Officer) and a Director	November 19, 2015
/s/ Randal J. Freitag Randal J. Freitag	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 19, 2015
/s/Douglas N. Miller Douglas N. Miller	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	November 19, 2015
William J. Avery*	Director	November 19, 2015
William H. Cunningham*	Director	November 19, 2015
George W. Henderson, III*	Director	November 19, 2015
Eric G. Johnson*	Director	November 19, 2015
Gary C. Kelly*	Director	November 19, 2015
M. Leanne Lachman*	Director	November 19, 2015
Michael F. Mee*	Director	November 19, 2015
William Porter Payne*	Director	November 19, 2015
Patrick S. Pittard*	Director	November 19, 2015
Isaiah Tidwell*	Director	November 19, 2015

*By: /s/ Charles A. Brawley, III
Charles A. Brawley, III, Attorney-in-Fact
(Pursuant to Powers of Attorney)
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INDEX TO EXHIBITS

3.1	LNC Restated Articles of Incorporation of LNC are incorporated by reference to Exhibit 3.1 of LNC's Form 8-K (File No. 1-6028) filed with the SEC on July 8, 2013.
3.2	Amended and Restated Bylaws of LNC (effective May 23, 2013) are incorporated by reference to Exhibit 3.2 of LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2013.
5.1	Opinion of Marcie J Weber, Esq., as to the legality of the securities being registered.
5.2	Opinion of Andrew Scanlon, Esq., as to the legality of the Plan Interests.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Marcie J. Weber, Esq., is contained in Exhibit 5.1 (included in Exhibit 5.1).
23.3	Consent of Andrew Scanlon, Esq., is contained in Exhibit 5.2 (included in Exhibit 5.2)
24	Powers of Attorney.

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