

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Greg D. Blankenship, the brother of George D. Blankenship, Senior Vice President, Global Engineering, is the sole stockholder and President of P&R Specialty, Inc., a supplier to the Company. During 2005, the Company purchased approximately \$2.7 million worth of products from P&R Specialty in ordinary course of business transactions. George D. Blankenship has no ownership interest in or any involvement with P&R Specialty. The Company believes that the transactions with P&R Specialty were on terms no less favorable to the Company than those that could have been obtained from unaffiliated parties.

DIRECTOR COMPENSATION

General. Based upon the recommendations of the Nominating and Corporate Governance Committee, the Board of Directors determines Director compensation. An employee of the Company who also serves as a Director does not receive any additional compensation for serving as a Director or as a member or chair of a committee.

2005 Director Compensation Package. The Nominating and Corporate Governance Committee periodically reviews the status of Board compensation in relation to other comparable companies and other factors it deems appropriate. During 2005, the Directors' compensation package for non-employee Directors was based on the following principles:

- a significant portion of Director compensation should be aligned with creating and sustaining shareholder value;
- Directors should have equity interest in the Company; and
- total compensation should be structured to attract and retain a diverse and truly superior Board of Directors.

With the above principles in mind, the compensation package for 2005 was comprised of the following components:

Cash

- an annual cash retainer of \$30,000 for all Directors;
- an annual cash retainer of \$10,000 for the Lead Director;
- an annual cash retainer of \$5,000 for each Committee Chair;
- Board meeting fees of \$1,500 for each meeting attended; and
- Committee meeting fees of \$1,500 for each meeting attended

Stock

- an annual award of options to purchase shares of Lincoln Common pursuant to the Stock Option Plan for Non-Employee Directors; for 2005, the Nominating and Corporate Governance Committee awarded options to purchase 3,500 shares of Lincoln Common under the Plan; and
- an initial award of options to purchase 6,000 shares of Lincoln Common to Directors who become eligible by virtue of their election after December 31, 1999.

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The following table details the cash retainers and fees, as well as equity compensation in the form of stock options, received by our non-employee Directors during 2005.

Director	Retainer	Chair Retainers	Meeting Fees	Total Cash Compensation	Stock Options (#)
Harold L. Adams	\$ 40,000 ⁽¹⁾	\$ 5,000	\$ 27,000	\$ 72,000	3,500
Ranko Cucuz	30,000	—	25,500	55,500	3,500
David H. Gunning	30,000	5,000	27,000	62,000	3,500
Robert J. Knoll	30,000	2,500 ⁽²⁾	31,500	64,000	3,500
G. Russell Lincoln	30,000	—	27,000	57,000	3,500
Kathryn Jo Lincoln	30,000	—	31,500	61,500	3,500
Hellene S. Runtagh	30,000	5,000	34,500	69,500	3,500
George H. Walls, Jr.	30,000	—	31,500	61,500	3,500

(1) Includes Lead Director retainer of \$10,000.

(2) Represents a pro rata portion of Committee Chair fees. Mr. Knoll was Chair of the Audit Committee for a portion of 2005 as the successor to Mr. Gunning.

Other Arrangements. The Company reimburses all Directors for out-of-pocket expenses incurred in connection with attendance at Board meetings, or when traveling in connection with the performance of their services for the Company. With respect to the use of private aircraft, the Company will reimburse the Director for the cost of a first-class ticket (which amount is increased proportionately should other Directors travel on the same flight).

Continuing Education. Directors are reimbursed up to \$5,000 annually for continuing education expenses, in such amounts and on such programs and related expenses as each Director may elect.

Changes in Director Compensation for 2006. During 2005, in light of the increased workload demands on our Directors and upon review of both existing as well as emerging trends in director compensation, the compensation of our Directors was increased for 2006 as follows:

- an annual cash retainer of \$40,000 for all Directors;
- an annual cash retainer of \$15,000 for the Lead Director;
- an annual cash retainer of \$10,000 for the Chairs of the Audit and the Compensation and Executive Development Committees and \$5,000 for each other Committee Chair;
- Board meeting fees of \$3,000 for each meeting attended; and
- Committee meeting fees of \$1,500 for each meeting attended.

During 2005, the Committee also determined that the Director compensation package should include other types of stock awards (such as restricted stock) in addition to, or in place of, stock options in order to provide Directors with an opportunity to obtain more of a proprietary interest in the Company and in light of the new non-employee Director stock ownership guidelines discussed below. Accordingly, the new 2006 Stock Plan for Non-Employee Directors was approved and adopted by the Board in March 2006, subject to approval by the shareholders at this year's Annual Meeting (see Proposal 3 below). The new plan is intended to replace the current Stock Option Plan for Non-Employee Directors. For a complete discussion of the proposed new plan, see the discussion of Proposal 3 below.

Stock Ownership Guidelines. In keeping with the philosophy that Directors' interests should be aligned with creating and sustaining shareholder value and as part of its continued focus on best practices with respect to corporate governance, the Company introduced stock ownership guidelines for the non-employee Directors effective January 1, 2006. Guidelines were also introduced for officers, which are described below in the Compensation and Executive Development Committee Report on

Executive Compensation. Under these new guidelines, non-employee Directors are required to accumulate over time a certain number of shares of Lincoln Common equal in value to at least three times the Board's 2006 annual cash retainer of \$40,000 (or \$120,000). Non-employee Directors have five years to satisfy the stock ownership guidelines, which can be satisfied by holding either (1) shares aggregating the specified dollar amount, or (2) 3,025 shares, which amount is the equivalent to three times the annual retainer in effect on January 1, 2006 (\$120,000) divided by the closing price of a share of Lincoln Common on December 30, 2005 (\$39.66). Restricted stock awards, if awarded, will count towards the stock ownership guidelines; shares of Lincoln Common underlying stock options and shares held in another person's name (including a relative) will not.

Stock Option Plan for Non-Employee Directors. Approved by shareholders in May 2000, the Plan provides for the annual and initial grants of options to purchase shares of Lincoln Common as outlined above.

Under the Plan, the option price may not be less than the per share fair market value of Lincoln Common on the date of grant. An option becomes exercisable after the optionee has continuously served as a Director for one year from the date of grant. Once the optionee has vested in his or her options, the option may be exercised in whole or in part with respect to 100% of the underlying shares of Lincoln Common. Options granted under the Plan have a 10-year term.

In accordance with the terms of the Plan, on November 30, 2005, each of the current non-employee Directors received an option to purchase 3,500 shares of Lincoln Common at an exercise price of \$39.93 per share.

As mentioned above, a new 2006 Stock Plan for Non-Employee Directors is proposed for approval at this year's Annual Meeting, which plan is intended to supersede the Stock Option Plan for Non-Employee Directors. The new plan provides for awards of stock options and other types of awards, including restricted stock, and is discussed in more detail below.

Non-Employee Directors' Deferred Compensation Plan. Adopted in 1995, this Plan allows the non-employee Directors to defer payment of all or a portion of their annual cash compensation. This Plan allows each participating non-employee Director to:

- elect to defer a specified dollar amount or a percentage of his or her cash compensation;
- have the deferred amount credited to the Director's account and deemed invested in one or more of the options available under the Plan; and
- elect to begin payment of the deferred amounts as of the earlier of termination of services as a Director, death or a date not less than two years after the fees are initially deferred.

On November 30, 2005, the Company amended the Plan to reinstate future benefit accruals under the Plan effective as of January 1, 2006. The Plan previously had been frozen with respect to benefit accruals for the period after December 31, 2004 in response to the adoption of the American Jobs Creation Act of 2004, which significantly changed the Federal tax law applicable to amounts deferred under the Plan after that date. All benefit accruals vested prior to January 1, 2005 qualify for "grandfathered" status and continue to be governed by the law applicable to nonqualified deferred compensation prior to the addition of Section 409A of the U.S. Internal Revenue Code. Accordingly, there were no deferrals under the Plan for 2005.

Directors' Charitable Award Program. This Program was terminated in 2003, other than for Directors already vested. Upon the death of a vested non-employee Director, the Company will donate an aggregate of \$500,000 (in 10 annual installments) to one or more charitable organizations recommended by the vested Director and approved by the Company. This Program is funded through insurance policies on the lives of the vested Directors.

In 2005, the Company paid \$251,000 in premiums on current insurance policies.

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All charitable deductions and the cash surrender value of the policies accrue solely to the Company; the vested Directors derive no financial benefit. The current non-employee Directors who are already vested in the Program are David H. Gunning, G. Russell Lincoln and Kathryn Jo Lincoln.

MANAGEMENT OWNERSHIP OF SHARES

The following table sets forth certain information regarding ownership of Lincoln Common as of February 28, 2006 by each of the Directors, each of the Company’s Executive Officers named in the “Summary Compensation Table” on page 29 and all Directors and Executive Officers as a group. Except as otherwise indicated, voting and investment power with respect to shares reported in this table are not shared with others.

BENEFICIAL OWNERSHIP TABLE		
Directors	Number of Shares of Lincoln Common Beneficially Owned (1)	Percent of Class
Harold L. Adams	14,000(2)	*
Ranko Cucuz	14,000(3)	*
David H. Gunning	13,485(4)	*
Robert J. Knoll	10,000(5)	*
G. Russell Lincoln	231,597(6)	*
Kathryn Jo Lincoln	531,105(7)	1.26%
Hellene S. Runtagh	16,000(8)	*
George H. Walls, Jr.	10,000(9)	*
Named Executive Officers		
John M. Stropki, Jr.	351,009(10)	*
Vincent K. Petrella	30,849(11)	*
Frederick G. Stueber	36,401(12)	*
James E. Schilling	10,706(13)	*
George D. Blankenship	45,468(14)	*
All Directors and Executive Officers as a group (14 persons)	1,331,202(15)	3.11%

* Indicates less than 1%

- (1) Reported in compliance with the beneficial ownership rules of the Securities and Exchange Commission, under which a person is deemed to be the beneficial owner of a security, for these purposes, if he or she has or shares voting power or investment power over the security or has the right to acquire the security within 60 days of February 28, 2006.
- (2) Includes 12,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (3) Consists of 14,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (4) Includes 10,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (5) Includes 7,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (6) Of the 231,597 shares reported, G. Russell Lincoln held of record 152,145 shares. An additional 514 shares were held of record by his spouse. The remaining 78,938 shares were held of record as follows: 6,159 shares by a trust for the benefit of his son, as to which Mr. Lincoln is a trustee; 35,279 shares by the Laura R. Heath Family Trust for which Mr. Lincoln serves as trustee; 27,500 shares by The G. Russell and Constance P. Lincoln Family Foundation for which Mr. Lincoln serves as a trustee; and 10,000 shares that may be acquired upon the exercise of

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stock options within 60 days of February 28, 2006. Mr. Lincoln disclaims beneficial ownership of the shares held by his spouse, the trust and the Foundation.

- (7) Of the 531,105 shares reported, 23,443 shares were held of record by a trust established by Ms. Lincoln, under which she has sole investment and voting power. The remaining 507,662 shares were held of record as follows: 501,662 shares were held of record by the Lincoln Foundation, Inc., of which Ms. Lincoln is the President, as to which shares Ms. Lincoln disclaims beneficial ownership; and 6,000 shares may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (8) Includes 14,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (9) Includes 8,000 shares that may be acquired upon the exercise of stock options within 60 days of February 28, 2006.
- (10) Of the 351,009 shares reported, Mr. Stropki held of record 40,251 shares, 11,480 shares of which are restricted shares, and 6,025 shares were held of record by a trust established by Mr. Stropki and his spouse, under which they share investment and voting power. Mr. Stropki has or had the right to acquire 304,733 shares upon the exercise of stock options within 60 days of February 28, 2006.
- (11) Of the 30,849 shares reported, Mr. Petrella held of record 7,050 shares, 3,330 shares of which are restricted shares, and has or had the right to acquire 23,799 shares upon the exercise of stock options within 60 days of February 28, 2006.
- (12) Of the 36,401 shares reported, Mr. Stueber held of record 8,000 shares, 3,000 shares of which are restricted shares, and has or had the right to acquire 28,401 shares upon the exercise of stock options within 60 days of February 28, 2006.
- (13) Of the 10,706 shares reported, Mr. Schilling held of record 4,040 shares, 1,040 shares of which are restricted shares, and has or had the right to acquire 6,666 shares upon the exercise of stock options within 60 days of February 28, 2006.
- (14) Of the 45,468 shares reported, Mr. Blankenship held of record 3,433 shares, 1,710 shares of which are restricted shares, and has or had the right to acquire 40,325 shares upon the exercise of stock options within 60 days of February 28, 2006.
- (15) Includes 496,924 shares which all Executive Officers and Directors, as a group, have or had the right to acquire upon the exercise of stock options within 60 days of February 28, 2006.

In addition to the above management holdings, as of February 28, 2006, The Lincoln Electric Company Employee Savings Plan held 1,098,646 shares of Lincoln Common, or 2.60% of the shares of Lincoln Common outstanding.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, Executive Officers and beneficial owners of 10% or more of Lincoln Common to file reports of beneficial ownership and changes in beneficial ownership with respect to the securities of the Company with the Securities and Exchange Commission and to furnish copies of these reports to the Company. Based solely on a review of the Forms 3 and 4 and amendments thereto furnished to the Company during 2005 and Forms 5 and amendments thereto furnished to the Company with respect to the fiscal year ended December 31, 2005, the Company believes that for the year 2005 all filing requirements were met on a timely basis.

OTHER OWNERSHIP OF SHARES

Set forth below is information with respect to any person (including any “group” as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) known to the Company to be an owner of more than 5% of the shares of Lincoln Common, other than the persons indicated in the “Beneficial Ownership Table” on page 20.

Name and Address of Beneficial Owner	No. of Shares and Nature of Beneficial Ownership	Percent of Class
David C. Lincoln 1741 East Morten Avenue, Suite A Phoenix, Arizona 85020	2,279,908(1)	5.4%
Royce & Associates, LLC 1414 Avenue of the Americas New York, New York 10019	5,213,857(2)	12.4%

- (1) Of the total amount reported by Mr. Lincoln, he has sole voting and dispositive power over 90,130 shares, which amount includes stock options for 4,000 shares exercisable within 60 days of December 31, 2005, and shared voting and dispositive powers over 2,189,778 shares. With respect to the shares over which Mr. Lincoln has sole voting and dispositive powers, he disclaims beneficial ownership of 86,130 shares held by two trusts of which he is the sole trustee. With respect to the shares over which Mr. Lincoln has shared voting and dispositive powers, he disclaims beneficial ownership of (a) 183,523 shares held by four trusts of which he is one of two trustees and (b) 501,622 shares held by the Lincoln Foundation, Inc. of which he is a Director. In his Schedule 13G filed with the Securities and Exchange Commission on January 25, 2006, Mr. Lincoln states that the shares of Lincoln Common reported in the filing were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the Company and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.
- (2) According to its Schedule 13G, most recently amended on January 30, 2006, Royce & Associates, LLC has sole voting and dispositive power over 5,213,857 shares. In its Schedule 13G filing, Royce states that the shares of Lincoln Common reported in the filing were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

COMPENSATION AND EXECUTIVE DEVELOPMENT COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Executive Development Committee of the Board of Directors consists solely of non-employee Directors. Its primary charge is to determine and report to the Board on the compensation (or method of calculating it) for the Chairman, President and Chief Executive Officer and each other Executive Officer. In addition, the Committee establishes procedures and conducts succession planning for the Chief Executive Officer and other executive management positions, and reviews and makes recommendations to the Board concerning the Company's employee stock, incentive compensation and employee benefit programs. The Chief Executive Officer recommends the compensation of the other Executive Officers, subject to Committee review and approval.

Executive Compensation Policy

Cash Compensation

Our executive compensation policy is based on our long-standing commitment to incentive-based compensation for all employees, including officers. The employee cash bonus program exemplifies this commitment. For many years, The Lincoln Electric Company, the Company's principal domestic subsidiary, has administered a discretionary employee bonus program featuring a cash distribution determined on the basis of a formula that takes into account company performance, as well as individual earnings and performance. Virtually all domestic full-time employees participate in the program. Generally, the Company's foreign subsidiaries have also adopted formula-based cash bonus programs. The cost of the Company's cash bonus programs, net of hospitalization costs but inclusive of payroll taxes, was \$62.9 million in 2005, \$46.5 million in 2004 and \$26.2 million in 2003.

The Committee's approach to executive compensation is generally the same as the Company's approach to employee compensation, with a strong belief in pay for performance. The base salaries of executives are set at approximately the 45th percentile of the Company's peer group; *i.e.*, base salaries are somewhat below market average. The Committee believes that, given base pay is set below market, annual cash bonus opportunities should be above average, with the 65th percentile of the Company's peer group used as the target for total cash compensation (base and bonus). In evaluating compensation, the Committee uses a peer group consisting of manufacturers based in the United States, but with significant foreign operations, having revenues comparable to those of the Company.

The Committee believes that payments of above-average bonuses should only be made where both the individual's performance and that of his or her particular business unit warrant it. Therefore, target bonus amounts are established each year based on anticipated superior individual performance and achievement of applicable financial results. If either of these factors is not met, the percentage of target paid is reduced significantly, with the potential that no bonus will be paid. If either of these factors significantly exceeds expectations, the percentage paid can be above target, but with a maximum payout capped at 135% of target.

A portion of the financial component is based on consolidated financial results while the remainder is attributable to regional/business unit financial results, depending upon the individual's responsibilities. The financial targets for 2005 were based on achievement of earnings before interest, taxes and the cash bonus referred to above. The financial targets were set on the same basis for 2006. By tying a significant portion of the target to specific business unit results, it is possible for certain participants to receive a higher percentage of target than that of other participants where their business unit performance is better. This was the case in 2005, where the consolidated and certain business unit results were significantly above expectations. As a result, certain executives, including all of the named Executive Officers, received payouts that were above their target amounts. Cash bonuses paid to the named Executive Officers for 2005 were 31% above the amounts paid to the named Executive Officers for 2004, due to the above average financial performance mentioned above, and as a result of higher target awards given to Messrs. Stropki and Petrella who had broader roles than at the beginning of

2004. In total, bonuses for all executives in this program were 9% below the amounts paid to all participants for 2004, partially due to retirements from 2004. Excluding 2004 retirees, total bonuses for all participants were 12% above amounts paid to active participants for 2004 and were 17% above the target amounts set for 2005, again primarily due to superior financial performance.

Long-Term Incentives

The Committee's compensation philosophy, after taking into account lower than average base salaries and above average cash bonus opportunities, includes a third principle, which is that long-term incentive opportunities should be established that rank executives at the median of their peer group for long-term incentive programs. The Committee believes that long-term incentive compensation should be weighted toward equity rewards. Therefore, stock-based compensation is awarded such that it accounts for approximately two-thirds of an executive's long-term incentive compensation.

In the past, stock-based compensation had been delivered almost exclusively through the grant of stock options to executives. The Company did grant tandem stock appreciation rights (SARs) to executives in 2003 and early 2004. However, in response to the American Jobs Creation Act of 2004 (the "Act"), the Company determined that no further tandem SARs would be granted, and the Company modified its existing tandem SAR program to eliminate the cash settlement feature and to cancel (with agreement from participants) all unvested tandem SARs. The cancellation of the unvested tandem SARs did not affect the underlying stock options granted to the executives in 2003 or 2004.

After a detailed review of long-term incentive programs and trends, the Company determined that its stock-based compensation component for officers would be split evenly between stock options and restricted stock. Therefore, beginning with the 2005 award, officers were granted stock options which accounted for approximately one-third of the value of their long-term incentive compensation and they were granted shares of restricted stock, which accounted for another one-third of their long-term incentive compensation — the final one-third value was reserved for the cash long-term incentive plan described below.

The restricted stock awarded to officers has a vesting term of five years. Vesting may be accelerated to just over three years if the cash long-term incentive plan financial targets (described below) are satisfied. Until vested, the restricted stock earns dividends and officers are entitled to vote those shares. However, dividends are held in suspense until vesting occurs, at which time such dividends are paid in shares of Lincoln Common.

Stock options awarded to officers have a rateable vesting period of three years, with accelerated vesting upon retirement or change of control. Stock options are valued and then awarded using the Black-Scholes valuation method, and the option price may not be less than the per share fair market value of Lincoln Common on the date of grant.

In keeping with the Committee's belief that equity awards are a valuable compensation tool, the Committee extends the stock option portion of the long-term incentive program to senior managers and also makes available certain one-time option grants to significant contributors, regardless of their position within the Company. Unlike executive options, options under the one-time option grants vest after one year.

A cash long-term performance plan was also introduced in 1997 for executive officers. Under this program, which accounts for one-third of executives' long-term incentive opportunities, targets are set at the beginning of a three-year performance cycle. Payouts are based on growth in net income during that period against pre-established thresholds. Payouts were achieved in 2005, based on average annual growth during the 2003 to 2005 cycle. Payments were made at the maximum 140% of targets for 18 executives due to growth during that period that was above expectations. This is only the third time a payment has been made under this plan.

The Company approved certain changes to the cash long-term incentive plan, beginning with the 2005 to 2007 performance cycle. Although awards are still based on growth in net income over a three-

year period, performance is now measured over the entire period (instead of on a year-by-year basis). The financial threshold for payment, which is approved by the Committee, is determined based on internal as well as external and macro-economic factors. As in the past, the Committee has discretion to modify payments to any participant.

During its 2005 review of long-term incentive programs and trends, the Committee determined that the Company's program should provide for greater flexibility, and in a way that continues to strengthen our commitment to incentive-based compensation tied to value creation for shareholders. Accordingly, the new 2006 Equity and Performance Incentive Plan (the "2006 EPI Plan") was approved and adopted by the Board in March 2006, subject to shareholder approval at this year's Annual Meeting (see Proposal 2 below). The new plan is intended to replace the current 1998 Stock Plan and provides for awards of stock options, SARs, restricted shares, restricted stock units, performance shares and performance units. For a complete discussion of the proposed new plan, see the discussion of Proposal 2 below.

Stock Ownership Guidelines

As with the Directors, in keeping with its philosophy that officers should maintain an equity interest in the Company and based on its view that such ownership is a component of good corporate governance, the Company adopted stock ownership guidelines for officers effective January 1, 2006. Under the guidelines, officers of the Company are required to own and hold a certain number of shares of Lincoln Common, currently at the levels set forth in the table below:

Executive Group	Ownership Guideline
CEO	3 times base salary
Management Committee Members*	1 times base salary
Other Officers	1/2 times base salary

* Includes Messrs. Petrella, Stueber, Schilling and Blankenship and other officers of the Company.

Officers have five years to satisfy the stock ownership guidelines, which can be satisfied by holding either (1) shares aggregating the dollar amount specified above, or (2) that number of shares needed to satisfy the ownership guidelines tied to the base salaries in effect on January 1, 2006 divided by the closing price of a share of Lincoln Common on December 30, 2005 (\$39.66). The Committee reserves the right to modify these guidelines in the future. Restricted stock awards will count towards the stock ownership guidelines; shares of Lincoln Common underlying stock options and shares held in another person's name (including a relative) will not.

CEO Compensation

On June 3, 2004, Mr. Stropki was elected as President and Chief Executive Officer of the Company. The Committee takes the approach that a person's compensation will be brought up to levels commensurate with a new position over time, not all at once. Therefore, during 2005, Mr. Stropki's compensation reflected a greater move toward the market levels for CEO compensation. Mr. Stropki's compensation for 2005 reflects the Committee's three-part compensation philosophy, emphasizing incentives and performance and includes:

- base compensation for Mr. Stropki of \$660,000, which is 30% above his base compensation for 2004 but is below the 45th percentile of his peer group;
- cash bonus of \$991,500 for Mr. Stropki, based on superior individual performance and consolidated financial results, which is 54% above the amount paid to him in 2004 (primarily due to a higher 2005 target) and is 32% above his target award, which places his 2005 cash compensation at the 65th percentile of his peer group;

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- a stock option grant of 49,600 shares and a restricted stock award of 11,480 shares for long-term incentive compensation for Mr. Stropki, placing him at what the Committee believes is just below the median of his current peer group for those portions of the long-term incentive program; and
- a cash long-term performance plan payout of \$224,000 for Mr. Stropki for the 2003 to 2005 performance cycle, placing him significantly below the median of his current peer group for overall long-term incentive compensation, primarily due to the fact that this cash plan target was set before Mr. Stropki became CEO.

Other Executive Officers

The base salaries of Messrs. Petrella, Stueber, Schilling and Blankenship were established according to the principles discussed above. A total of \$1,015,000 was paid to them as base pay in 2005 (placing them, in aggregate, just below the peer group 45th percentile). A total of \$950,950 was paid to them for 2005 bonuses, which was, in aggregate, 14% above the amount paid to them for 2004, was 31% above target for 2005, and placed them above the peer group 65th percentile due to superior financial and individual performance. Aggregate option grants of 39,300 shares and 9,080 shares of restricted stock were awarded to these executives in 2005 under the Company's 1998 Stock Plan, and a total of \$323,400 was paid to them for 2005 under the cash long-term performance plan, placing them just below the median of their current peer group for long-term incentive compensation, primarily due to the fact that the cash plan targets were set before some of these individuals took on their current roles.

1993 Tax Act

The Committee's general philosophy is to qualify future compensation for tax deductibility under Section 162(m) of the Internal Revenue Code, wherever appropriate, recognizing that, under certain circumstances, the limitations may be exceeded. Compensation paid by the Company to the named Executive Officers during 2005 was tax deductible for Federal income tax purposes, except with respect to a portion of the compensation paid to Mr. Stropki. The Committee intends to preserve the deductibility of compensation and benefits to the extent practicable and to the extent consistent with its other compensation objectives.

By the Compensation and Executive Development Committee:

Hellene S. Runtagh, Chair
Harold L. Adams

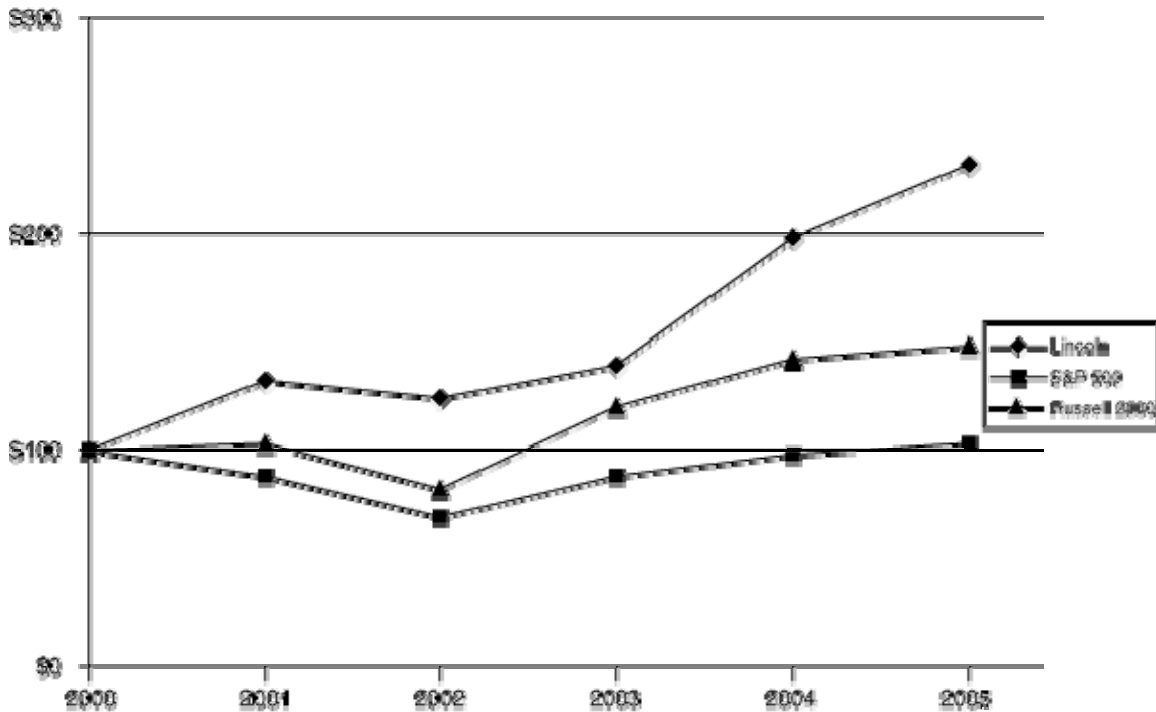
Ranko Cucuz
G. Russell Lincoln

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2005, none of the Compensation and Executive Development Committee members were employees of the Company or any of its subsidiaries, and there were no reportable business relationships between the Company and the Committee members. None of the Company's Executive Officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of the Company's Committee. In addition, none of the Company's Executive Officers serves as a member of the compensation committee of any entity that has one or more of its executive officers serving as a member of the Company's Board of Directors.

STOCK PERFORMANCE GRAPH

The following line graph compares the yearly percentage change in the cumulative total shareholder return on Lincoln Common against the cumulative total return of the S&P Composite 500 Stock Index and The Russell 2000 Stock Index for the five-year calendar period commencing January 1, 2001 and ending December 31, 2005. This graph assumes that \$100 was invested on December 31, 2000 in each of Lincoln Common, the S&P 500 companies and The Russell 2000 Stock Index. A compatible peer-group index for the welding industry, in general, was not readily available because the industry is comprised of a relatively small number of competitors, many of whom either are based overseas and/or are privately held and not actively traded in the United States. The Russell 2000, published by the Frank Russell Company, represents a developed index based on a concentration of companies having relatively small market capitalization, similar to that of the Company.



	2000	2001	2002	2003	2004	2005
Lincoln	100	132	124	139	198	232
S&P 500	100	88	69	88	98	103
Russell 2000	100	103	82	120	142	148

SUMMARY COMPENSATION TABLE

The following table provides information on the compensation for the last three calendar years for John M. Stropki, Jr., the Company's Chief Executive Officer, and the four next highest paid Executive Officers.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary	Bonus	Other Annual Compensation	Awards	Payouts		
					Restricted Stock Awards (1)	Securities Underlying Options/SARs	LTIP Payouts (2)	
John M. Stropki, Jr.(3) Chairman, President and Chief Executive Officer	2005	\$ 660,000	\$ 991,500	—	\$ 468,499	49,600	\$ 224,000	—
	2004	506,250	644,583	—	—	120,000	158,620	—
	2003	320,000	211,875	—	—	50,000	—	—
Vincent K. Petrella(4) Senior Vice President, Chief Financial Officer and Treasurer	2005	\$ 285,000	\$ 279,930	—	\$ 135,897	14,400	\$ 43,400	—
	2004	206,644	185,000	—	—	25,000	20,394	—
	2003	—	—	—	—	—	—	—
Frederick G. Stueber Senior Vice President, General Counsel and Secretary	2005	\$ 275,000	\$ 284,230	—	\$ 122,430	13,000	\$ 116,200	—
	2004	260,000	279,500	—	—	25,000	96,305	—
	2003	260,000	141,200	—	—	25,000	—	—
James E. Schilling Senior Vice President, Corporate Development	2005	\$ 230,000	\$ 208,320	—	\$ 42,442	4,500	\$ 107,800	—
	2004	225,000	208,000	—	—	20,000	79,310	—
	2003	225,000	135,000	—	—	20,000	—	—
George D. Blankenship Senior Vice President, Global Engineering	2005	\$ 225,000	\$ 178,470	—	\$ 69,785	7,400	\$ 56,000	—
	2004	200,000	162,500	—	—	15,000	45,320	—
	2003	195,000	77,520	—	—	12,000	—	—

- (1) The amounts shown in this column represent the dollar value of restricted stock grants during the past three fiscal years. All grants of restricted stock were made under the Company's 1998 Stock Plan.

On November 30, 2005, Mr. Stropki received a grant of 11,480 shares of restricted stock, Mr. Petrella received a grant of 3,330 shares of restricted stock, Mr. Stueber received a grant of 3,000 shares of restricted stock, Mr. Schilling received a grant of 1,040 shares of restricted stock and Mr. Blankenship received a grant of 1,710 shares of restricted stock. The dollar values shown are based on the closing price of a share of Lincoln Common on November 30, 2005 (\$40.81). The restricted stock vests upon the earlier of (1) the recipient remaining in continuous employment for five years (to November 30, 2010), or (2) a determination by the Compensation and Executive Development Committee of the Board that the financial targets for the Company's 2006-2008 cash long-term incentive plan are met (3 years). Any cash dividends on the restricted stock are sequestered by the Company until the shares are nonforfeitable, at which time such dividends are paid in shares of Lincoln Common.

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The following details the aggregate share amount and the dollar value based on the closing price of a share of Lincoln Common on December 30, 2005 (\$39.66) of the restricted stock held by the CEO and the next four highest paid Executive Officers:

	Number of Shares	Value
John M. Stropki, Jr.	11,480	\$ 455,297
Vincent K. Petrella	3,330	132,068
Frederick G. Stueber	3,000	118,980
James E. Schilling	1,040	41,246
George D. Blankenship	1,710	67,819

- (2) Amounts for 2005 and 2004 represent cash payouts earned for the periods 2003 to 2005 and 2002 to 2004, respectively, pursuant to the Company's cash long-term incentive plan, which payments were based on average annual net income growth over those three-year periods.
- (3) Mr. Stropki was elected Chairman, President and Chief Executive Officer during 2004. Mr. Stropki served as Executive Vice President during 2002 and 2003, and as Chief Operating Officer for a portion of 2003 and the beginning of 2004.
- (4) Mr. Petrella was Corporate Controller of The Lincoln Electric Company during 2003. As Mr. Petrella was not an Executive Officer for 2003, no compensation information for that year has been provided.

STOCK OPTION/ SAR GRANTS IN 2005

The following table provides information relating to stock options awarded in 2005 to our named Executive Officers. No SARs were awarded to the named Executive Officers during 2005.

Name	Number of Securities Underlying Options/SARs Granted (1)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh.)	Expiration Date	Grant Date Present Value (2)
John M. Stropki, Jr.	49,600	14.1%	\$ 39.93	11/30/15	\$ 474,672
Vincent K. Petrella	14,400	4.1%	\$ 39.93	11/30/15	137,808
Frederick G. Stueber	13,000	3.7%	\$ 39.93	11/30/15	124,410
James E. Schilling	4,500	1.3%	\$ 39.93	11/30/15	43,065
George D. Blankenship	7,400	2.1%	\$ 39.93	11/30/15	70,818

- (1) Options were granted pursuant to the Company's 1998 Stock Plan. The options were granted at the fair market value of Lincoln Common on the date of grant, have 10-year terms and become exercisable in equal annual increments over a three-year period. Vesting of the options is accelerated by the occurrence of a change in control (see "Other Compensation Arrangements").
- (2) The Grant Date Present Value was calculated using the Black-Scholes option pricing model. The model assumes (i) volatility calculated using the trading information for Lincoln Common during the four and one-half year period ended November 29, 2005 (25.75% for Lincoln Common); (ii) a risk-free rate of return based on the 5-year treasury bond rate at November 29, 2005 (4.4%); and (iii) a dividend yield for Lincoln Common of 1.90%. The actual amount, if any, realized upon the exercise of stock options will depend upon the market price of Lincoln Common relative to the exercise price per share of the stock option at the time of exercise. There is no assurance that the hypothetical Grant Date Present Values of the stock options reflected in this table will actually be realized.

STOCK OPTION EXERCISES IN 2005 AND YEAR-END OPTION/ SAR VALUES

The following table provides information relating to exercisable and unexercisable stock options/SARs at December 31, 2005 for our named Executive Officers. The value of unexercised stock options/SARs is based on the difference between the exercise price of the options/SARs and the closing price of Lincoln Common on December 30, 2005, which was \$39.66. No SARs were awarded to the named Executive Officers during 2005.

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End		Value of Unexercised In-the-Money Options/SARs at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John M. Stropki, Jr.	24,000	\$ 534,324	304,733	146,267	\$ 5,430,388	\$ 671,672
Vincent K. Petrella	—	—	23,799	34,401	282,865	123,045
Frederick G. Stueber	30,798	380,994	28,401	38,001	355,070	201,845
James E. Schilling	24,698	245,642	20,851	24,501	255,061	161,475
George D. Blankenship	22,000	343,900	40,325	21,400	616,275	105,340

LONG-TERM INCENTIVE PLANS — AWARDS IN LAST FISCAL YEAR

The following table provides information relating to awards made to the named Executive Officers during 2005 under the Company's cash long-term incentive plan.

Name	Number of Shares, Units or Other Rights (\$)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans (1)		
			Threshold	Target	Maximum
John M. Stropki, Jr.	\$ 459,000	2006 to 2008	\$ 0	\$ 459,000	\$ 642,000
Vincent K. Petrella	133,000	2006 to 2008	0	133,000	186,200
Frederick G. Stueber	120,000	2006 to 2008	0	120,000	168,000
James E. Schilling	83,000	2006 to 2008	0	83,000	99,600
George D. Blankenship	68,000	2006 to 2008	0	68,000	95,200

(1) Represents a range of possible cash payouts earned for the period 2006 to 2008 pursuant to the Company's cash long-term incentive plan, which payments are based on income growth over a three-year cycle.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding outstanding options and shares reserved for issuance under the Company's equity compensation plans as of December 31, 2005:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)) (1)
Equity compensation plans approved by security holders	2,071,325	\$ 28.54	1,048,694
Equity compensation plans not approved by security holders	—	—	—
Total	2,071,325	\$ 28.54	1,048,694

- (1) Represents 1,048,694 shares available for issuance under the 1998 Stock Plan and the Stock Option Plan for Non-Employee Directors, under which no further awards will be made if the proposals to approve the 2006 Equity and Performance Incentive Plan (Proposal 2) and the 2006 Stock Plan for Non-Employee Directors (Proposal 3) are approved. The 2006 Equity and Performance Incentive Plan authorizes the issuance of up to 3,000,000 shares and the 2006 Stock Plan for Non-Employee Directors authorizes the issuance of up to 300,000 shares, resulting in a net increase of 2,251,306 shares available for future issuance if the two new plans are approved.

PENSION BENEFITS

We provide pension benefits for our Executive Officers under two defined benefit programs: the Supplemental Executive Retirement Plan (the "SERP"), which became effective January 1, 1994; and The Lincoln Electric Company Retirement Annuity Program (the "Retirement Annuity Program"), which has been in effect since 1936 and applies to all eligible employees. Effective January 1, 2006, new employees will not be eligible to participate in the Retirement Annuity Program as discussed below.

We also provide two defined contribution benefits for our Executive Officers: a supplemental deferred compensation plan and a qualified 401(k) savings plan, the latter of which was established in 1994 and applies to all eligible employees. As a result of the adoption of the American Jobs Creation Act of 2004 (the "Act"), supplemental deferred compensation is provided through two separate plans. The 2005 Deferred Compensation Plan for Executives (the "New Deferred Compensation Plan") was adopted on December 30, 2004 to replace the Company's old supplemental deferred compensation plan. The Deferred Compensation Plan for Executives (the "Old Deferred Compensation Plan"), which was originally adopted in 1994, was frozen with respect to future deferrals effective December 31, 2004 in response to the adoption of the Act. The New Deferred Compensation Plan is intended to be a "top-hat" plan that complies with new Internal Revenue Code Section 409A created by the Act ("Section 409A").

On December 30, 2005, the Company amended the Old Deferred Compensation Plan to provide that all benefit accruals shall comply with Section 409A. On December 22, 2005, the Board authorized the termination of the Old Deferred Compensation Plan as to the accounts for those participants who consented to such termination. Six of the participants consented to the termination and received cash distributions on December 29, 2005. One of the six was Vincent K. Petrella, a named Executive Officer. Mr. Petrella received a distribution of \$305,365 on December 29, 2005. Twenty-five other participants consented to the amendment of the plan in lieu of termination and cash distribution, including the other named Executive Officers. Accordingly, their accounts will continue to be held in the plan subject to Section 409A.

Participation in the SERP and the New Deferred Compensation Plan is limited to individuals approved by the Compensation and Executive Development Committee (the "Compensation Committee").

Supplemental Executive Retirement Plan

The purpose of the SERP is, in part, to make up for limitations imposed by the Internal Revenue Code on payments of retirement benefits under the Company's tax-qualified retirement plans, including the Retirement Annuity Program, and, primarily, to provide an aggregate competitive retirement benefit for SERP participants. The SERP was amended during 2004 in response to the adoption of the Act, which significantly changed the Federal tax law applicable to non-qualified deferred compensation plans after December 31, 2004. Under the amendment, effective December 31, 2004, further benefit accruals under the plan were temporarily frozen.

On February 16, 2005, the SERP was further amended in response to temporary regulations issued by the Internal Revenue Service relating to the Act and to modify the benefit formula applicable to new participants in the SERP in light of emerging trends in executive compensation. Under the most recent amendment, effective January 1, 2005: (i) all benefit accruals under the SERP were unfrozen, (ii) all benefit accruals vested prior to January 1, 2005 were "grandfathered" and continue to be governed by the law applicable to non-qualified deferred compensation prior to the adoption of the Act, (iii) all benefit accruals that were not so "grandfathered" will be administered so as to qualify under new Section 409A, and (iv) a two-tier benefit structure was established.

Under the new two-tier benefit structure, all future participants designated as "Management Committee and Regional President Participants" will be entitled to a retirement benefit equal to 1.333% of such participant's final average pay multiplied by his/her years of service, but not greater than 60% of

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the participant's final average pay, less applicable offsets. All future participants designated as "Other Participants" will be entitled to a retirement benefit equal to 1.111% of such participant's final average pay multiplied by his/her years of service, but not greater than 50% of the participant's final average pay, less applicable offsets.

The following table shows the estimated annual pension benefits provided under the SERP. These numbers include the employer-paid benefits under our qualified plans, which would be payable to employees in various compensation classifications upon retirement on December 31, 2005, at age 60 after the selected periods of service. The numbers also include, in certain cases, previous employer's retirement benefits. Mr. Schilling's benefit would be approximately 75% of the noted benefits on the table based on his SERP arrangement.

Average Compensation	Years of Service				
	25 Years	30 Years	35 Years	40 Years	45 Years
\$ 300,000	\$ 85,887	\$ 107,562	\$ 129,237	\$ 150,912	\$ 172,512
600,000	194,262	237,612	280,962	324,312	367,512
900,000	302,637	367,662	432,687	497,712	562,512
1,200,000	411,012	497,712	584,412	671,112	757,512
1,500,000	519,387	627,762	736,137	844,512	952,512
1,800,000	627,762	757,812	887,862	1,017,912	1,147,512
2,100,000	736,137	887,862	1,039,587	1,191,312	1,342,512
2,400,000	844,512	1,017,912	1,191,312	1,364,712	1,537,512

Generally, benefits under the SERP for current participants, including each named Executive Officer are based upon 1.445% of the average annual compensation for the three highest years in the seven-year period preceding retirement multiplied by the covered employee's years of service (including service with certain previous employers), except that the maximum benefit may not exceed 65% (50% for Mr. Schilling) of the average annual compensation for the three highest years used in the calculation, and service after age 65 is not included. The benefits payable under the SERP are reduced by the maximum Social Security benefit payable in the year of retirement, and the table reflects such reduction. The amounts reflected in the table will also be reduced by the single life benefit payable under the Retirement Annuity Program, the lifetime benefit equivalence of any account balance attributable to employer matching contributions, ESOP contributions and/or Financial Security Program contributions under the 401(k) Plan, and other employer-paid qualified plan benefits paid by previous employers (but only if prior years of service are awarded under the SERP for service with that previous employer). Benefits under the SERP are also reduced if the covered employee has participated in the SERP for fewer than eight years at the time of retirement. Unless a different factor is set by the Compensation Committee, participants are credited with only 20% of the net amount of the benefit otherwise payable under the SERP when they first become participants, and in each of the next eight years an additional 10% of the net amount of the benefit will become payable upon retirement. Messrs. Stropki and Stueber have 100% participation factors while Mr. Schilling has a 89% participation factor, and Messrs. Petrella and Blankenship have 60% participation factors as of December 31, 2005. Certain terms of the SERP may be modified as to individual participants, upon action by the Compensation Committee.

The compensation covered by the SERP is the same as shown in the salary and bonus columns of the "Summary Compensation Table" on page 29. Credited service for SERP purposes for Messrs. Stropki, Petrella, Stueber, Schilling and Blankenship is 33, 10, 32, 45 and 21 years, respectively.

Retirement Annuity Program

Under the Retirement Annuity Program, each employee accumulates 2.5% of each year's base compensation (limited to \$210,000 for compensation earned during the period November 1, 2005 through October 31, 2006 and \$220,000 thereafter) in the form of an annuity payable at normal retirement age (age 60 or five years of employment, if later). In addition to the 2.5% accumulation each year, the Company has granted, on a number of occasions, additional past service benefits. The Program also provides accumulated benefits to eligible spouses of deceased employees or former employees. Benefits under the program are in addition to those payable under Social Security.

In 2006, the Retirement Annuity Program is being modified to provide a one-time choice to current employees (those hired before January 1, 2006), between maintaining the current program or opting into an alternative program in which the prospective annual earned annuity in the Retirement Annuity Program is reduced to 1.25% of each year's base compensation and the employee is entitled to an enhanced Company contribution in the qualified 401(k) savings plan, based on service. All employees hired after January 1, 2006 will be entitled only to the enhanced defined contribution program.

The anticipated retirement benefits under the Retirement Annuity Program for the named Executive Officers are as follows, assuming they continue to participate in the existing program and do not opt for the alternative program outlined above:

Name	Annual Retirement Annuity Program Benefits
John M. Stropki, Jr.	\$ 99,589(1)
Vincent K. Petrella	116,531(1)
Frederick G. Stueber	86,250(1)
James E. Schilling	32,719(2)
George D. Blankenship	138,854(1)

- (1) Messrs. Stropki, Petrella, Stueber and Blankenship are currently under normal retirement age. The amounts shown represent those anticipated at normal retirement age, assuming that current compensation continues unchanged to that date and that the benefits are payable on a single life basis.
- (2) Mr. Schilling is currently not receiving benefits but is beyond normal retirement age. The amount shown represents the benefit available on December 31, 2005 payable on a single life basis.

OTHER COMPENSATION ARRANGEMENTS

Mr. Stropki was elected President and Chief Executive Officer of the Company effective June 3, 2004. In connection with his election, the Company and Mr. Stropki entered into a letter agreement modifying the terms of his retirement benefits. Under the terms of the letter agreement, Mr. Stropki will continue to participate in the SERP under the same terms and conditions that existed prior to his appointment as Chief Executive Officer, except that his annual benefit limit under the SERP was increased from the standard \$300,000 to \$500,000.

Mr. Stueber entered into an employment agreement in February 1995, which was modified in May 1998. The agreement grants credited service as of such date for purposes of the SERP of 22 years as of his date of hire, assuming a normal retirement age of 60 and service of 45 years at age 65.

The Compensation Committee granted Mr. Schilling participation in the SERP, effective February 1, 1999. That action awarded Mr. Schilling 43 ³ / 4 years of service but provided that his target benefit would be 50% of final average pay (instead of the normal 65%) and provided that his benefits would not vest until he reached age 66.

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In addition to the foregoing arrangements, the Company entered into agreements in 1998 with certain officers, including Messrs. Stropki and Stueber, designed generally to assure continued management in the event of a change in control of the Company. The agreements with Messrs. Stropki and Stueber were further modified in March 2000. These arrangements are operative only if a change in control occurs and payments are only made if the executive's employment is terminated. The agreements provide that following a change in control, a three-year severance period commences. If the Company were to terminate a covered officer's employment for reasons relating to changed circumstances, then the amounts and benefits the officer would be entitled to receive include (i) a lump-sum payment equal to the amount of base and incentive pay that would have been paid to the officer for the greater of one year or the remainder of the severance period; (ii) long-term incentive awards granted prior to the change in control; (iii) continuation of medical insurance, life insurance, and other welfare benefits for the greater of one year or the remainder of the severance period, subject to reduction for comparable welfare benefits received in any subsequent employment; and (iv) enhanced service credit and age under the SERP of three years and immediate vesting under the SERP. The officer would be entitled to receive an additional payment, net of taxes, to compensate for the excise tax imposed on these and other payments if they are determined to be excess parachute payments under the Internal Revenue Code. Payments under these agreements would be in lieu of any other rights to severance pay under other agreements.

**APPROVAL OF 2006 EQUITY AND PERFORMANCE INCENTIVE PLAN
Proposal No. 2**

General

In March 2006, your Board of Directors approved and adopted the 2006 Equity and Performance Incentive Plan (the “2006 EPI Plan”), subject to shareholder approval at the 2006 Annual Meeting of Shareholders. The 2006 EPI Plan will replace the Company’s 1998 Stock Plan. If the 2006 EPI Plan is approved by shareholders, no further awards will be made under the 1998 Stock Plan. Your Board of Directors believes that the 2006 EPI Plan gives more flexibility to continue our stock incentive compensation program which has been of significant benefit to us. The program also strengthens our commitment to incentive-based compensation tied to value creation for shareholders and is consistent with our compensation philosophy. The 2006 EPI Plan does not replace the Company cash long-term incentive plan, which the Company has used for cash performance awards for 2005 and intends to continue to use in the future.

The complete text of the 2006 EPI Plan is attached to this Proxy Statement as Appendix B. The following is a summary of the key terms of the 2006 EPI Plan, which is qualified in its entirety by reference to the text of the 2006 EPI Plan.

Summary Description of the 2006 EPI Plan

General. Under the 2006 EPI Plan, the Board or its Compensation and Executive Development Committee (the “Compensation Committee”) is authorized to make the following types of awards:

- options to purchase shares of Lincoln Common (“Option Rights”);
- awards of free-standing or tandem appreciation rights (“SARs”);
- restricted shares (“Restricted Shares”);
- restricted stock units (“Restricted Stock Units”);
- performance shares (“Performance Shares”); and
- performance units (“Performance Units”).

The Board intends to delegate to the Compensation Committee (consisting of only independent directors) administration of the 2006 EPI Plan if it is approved by the shareholders. Pursuant to such delegation, the Compensation Committee will have all of the powers and authority of the Board as described herein.

Shares Available. Subject to the adjustments provided in the 2006 EPI Plan (as described below under “Adjustments”), a total of 3,000,000 shares of Lincoln Common may be issued or transferred:

- upon the exercise of Option Rights or SARs;
- as Restricted Shares and released from substantial risk of forfeiture;
- in payment of Restricted Stock Units;
- in payment of Performance Shares or Performance Units that have been earned; and
- in payment of dividend equivalents, paid with respect to awards under the 2006 EPI Plan.

These shares may be of original issuance or treasury shares or a combination of both.

No Liberal Recycling. Shares covered by an award granted under the 2006 EPI Plan will not be counted as used unless and until they are actually issued and delivered to a participant. Upon payment in cash of the benefit provided by any award granted under the 2006 EPI Plan, any shares that were covered by that award will be available for issue or transfer thereunder. The following shares will not be added back to the aggregate plan limit: (a) shares tendered in payment of the exercise price of an

Option Right; (b) shares withheld by the Company to satisfy the tax withholding obligation; and (c) shares that are repurchased by the Company with Option Right proceeds. Further, all shares covered by an SAR, to the extent that it is exercised and settled in shares, whether or not all shares covered by the award are actually issued to the participant upon exercise of the right, shall be considered issued or transferred pursuant to the 2006 EPI Plan.

Special Limits. The 2006 EPI Plan provides for the following specific limits:

- The aggregate number of shares actually issued or transferred by the Company upon the exercise of Incentive Stock Options may not exceed 2,000,000 shares.
- The aggregate number of shares issued with respect to Restricted Shares (and released from substantial risk of forfeiture), Restricted Stock Units, Performance Shares or Performance Units may not exceed 1,000,000 shares.
- No individual participant will be granted Option Rights or SARs, in the aggregate, for more than 500,000 shares of Lincoln Common during any calendar year.
- No individual participant will be granted Restricted Shares or Restricted Stock Units that specify Management Objectives or Performance Shares, in the aggregate, for more than 250,000 shares during any calendar year.
- In no event will any individual participant in any calendar year receive an award of Performance Units having an aggregate maximum value as of their respective dates of grant in excess of \$1,500,000.

Eligibility. Officers (including officers who are members of the Board), other employees and consultants of the Company or any of its subsidiaries are eligible to receive awards under the 2006 EPI Plan. Outside the United States, any person who provides services to the Company or a subsidiary that are equivalent to those typically provided by an employee is also eligible.

Option Rights. Option Rights entitle the optionee to purchase shares of Lincoln Common at a predetermined price per share (which may not be less than the fair market value of Lincoln Common at the date of grant). The closing price of a share of Lincoln Common on the NASDAQ National Market on March 17, 2006 was \$52.96 per share. Option Rights granted under the 2006 EPI Plan may be:

- options that are intended to qualify under particular provisions of the Internal Revenue Code (Incentive Stock Options),
- options that are not intended to qualify under the Internal Revenue Code (Nonqualified Stock Options), or
- a combination of the two.

Each grant will specify the number of shares of Lincoln Common to which it pertains. Each grant will also specify whether the exercise price will be payable:

- in cash;
- by the transfer to the Company of shares of Lincoln Common previously owned by the optionee, having a value at the time of exercise equal to the total option price;
- by a combination of those payment methods; or
- by such other method as may be approved by the Board.

To the extent permitted by law, grants may provide for the deferred payment of the exercise price from the proceeds of sale through a bank or broker on a date satisfactory to the Company of some or all of the shares of Lincoln Common to which such exercise relates.

No Option Rights may be exercisable more than ten years from the date of grant. Each grant will specify the period or periods of continuous service by the optionee with the Company or any of its

subsidiaries that is necessary before the award or installments thereof become exercisable. A grant of Option Rights may provide for the earlier vesting of such Option Rights in the event of retirement, death or disability of the participant or a change of control of the Company. Successive grants may be made to the same optionee whether or not Option Rights previously granted to such optionee remain unexercised.

Any grant of Option Rights may specify Management Objectives (as described below) that must be achieved as a condition to exercising such rights. Such grant will specify that before the exercise or early exercise of the Option Rights the Board must determine the Management Objectives have been satisfied. Option Rights will be evidenced by an evidence of award containing such terms and provisions, consistent with the 2006 EPI Plan, as the Board may approve.

SARs. An SAR is a right, exercisable by surrender of the related Option Right (if granted in tandem with Option Rights) or by itself (if granted as a free-standing SAR), to receive from the Company an amount not exceeding 100% of the spread between the base price (or option price if a tandem SAR) and the value of a share of Lincoln Common on the date of exercise. Any grant may specify that the amount payable on exercise of a SAR may be paid by the Company in cash, in shares of Lincoln Common, or in any combination thereof, and may either grant to the participant or retain in the Board the right to elect among those alternatives. Any SAR grant may specify that the amount payable on exercise may not exceed a maximum specified by the Board at the time of grant. Any grant may specify waiting periods before exercise and permissible exercise dates and periods. Any grant of an SAR may specify that such SAR be exercised only in the event of, or earlier in the event of, retirement, death or disability of the participant or a change of control of the Company. Any grant may provide for the payment to the participant of dividend equivalents thereon in cash or shares of Lincoln Common on a current, deferred or contingent basis.

Any grant of SARs may specify Management Objectives that must be achieved as a condition to exercise such rights. Such grant will specify that before the exercise or earlier exercise of such SARs, the Board must determine that the Management Objectives have been satisfied. SARs will be evidenced by an evidence of award containing such terms and provisions, consistent with the 2006 EPI Plan, as the Board may approve.

Tandem SARs may be exercised only at a time when the related Option Right is exercisable and the spread is positive, and require that the related Option Right be surrendered for cancellation. Free-standing SARs must have a base price that is not less than the fair market value of a share of Lincoln Common on the date of grant. Successive grants of free-standing SARs may be made to the same participant regardless of whether any free-standing SARs previously granted to such participant remain unexercised. No free-standing SAR may be exercised more than ten years from the date of grant.

Restricted Shares. An award of Restricted Shares involves the immediate transfer of ownership of a specific number of shares of Lincoln Common by the Company to a participant in consideration of the performance of services. The participant is immediately entitled to voting, dividend and other ownership rights in those shares of Lincoln Common.

Restricted Shares that vest only upon the passage of time must be subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Internal Revenue Code for a period of not less than three years, as determined by the Board. In order to enforce these forfeiture provisions, the transferability of Restricted Shares will be prohibited or restricted in a manner and to the extent prescribed by the Board for the period during which the forfeiture provisions are to continue. The Board may provide for a shorter period during which the forfeiture provisions are to apply in the event of retirement, death or disability of the participant or a change of control of the Company.

Any award of Restricted Shares may specify Management Objectives which, if achieved, will result in termination or early termination of the restrictions applicable to such shares. If the grant of Restricted Shares provides that Management Objectives must be achieved to result in a lapse of restrictions, the

restrictions cannot lapse sooner than one year from the date of grant, but may provide for earlier lapse in the event of the retirement, death or disability of the participant or the change of control of the Company. Any such grant may also specify in respect of such specified Management Objectives, a minimum acceptable level of achievement and may set forth a formula for determining the number of Restricted Shares on which restrictions will terminate if performance is at or above the minimum level, but below full achievement of the specified Management Objectives. The grant of Restricted Shares will specify that, before termination or early termination of the restrictions, the Board must determine that the Management Objectives have been satisfied. Restricted Shares will be evidenced by an evidence of award containing such terms and provisions, consistent with the 2006 EPI Plan, as the Board may approve.

Restricted Stock Units. An award of Restricted Stock Units involves an agreement by the Company to deliver shares of Lincoln Common or cash to the participant in the future in consideration of the performance of services, but subject to the fulfillment of such conditions as the Board may specify (including Management Objectives) during a restriction period.

Awards of Restricted Stock Units may be made without additional consideration or in consideration of a payment by such participant that is less than the market value per share at the date of grant. During the restriction period, the participant has no right to transfer any rights under his or her award and no right to vote such Restricted Stock Units, but the Board may, at the date of grant, authorize the payment of dividend equivalents on such Restricted Stock Units on either a current or deferred or contingent basis, either in cash or in additional shares of Lincoln Common. Each grant or sale will specify the time and manner of payment of Restricted Stock Units that have been earned. Any grant or sale may specify that the amount payable with respect thereto may be paid by the Company in cash, in shares of Lincoln Common or in any combination thereof and may either grant to the participant or retain in the Board the right to elect among those alternatives.

Restricted Stock Units must be subject to a restriction period of at least three years if such restriction period lapses only by the passage of time, as determined by the Board at the date of grant. However, the Board may provide for a shorter restriction period in the event of retirement, death or disability of the participant or a change of control of the Company. Any grant of Restricted Stock Units may specify Management Objectives which, if achieved, will result in termination or early termination of the restriction period applicable to such shares. If the grant of Restricted Stock Units provides that Management Objectives must be achieved to result in a lapse of the restriction period, the restriction period cannot lapse sooner than one year from the date of grant, but may be subject to earlier lapse in the event of retirement, death or disability of the participant or change of control of the Company. Any such grant may also specify in respect of such specified Management Objectives, a minimum acceptable level of achievement and may set forth a formula for determining the number of shares of Restricted Stock Units on which the restriction period will terminate if performance is at or above the minimum level, but below full achievement of the specified Management Objectives. The grant of Restricted Stock Units will specify that, before termination or early termination of the restrictions, the Board must determine that the Management Objectives have been satisfied. Restricted Stock Units will be evidenced by an evidence of award containing such terms and provisions, consistent with the 2006 EPI Plan, as the Board may approve.

Performance Shares and Performance Units. A Performance Share is the equivalent of one share of Lincoln Common and a Performance Unit is the equivalent of \$1.00 or such other value as determined by the Board. A participant may be granted any number of Performance Shares or Performance Units, subject to the limitations discussed above. The participant will be given one or more Management Objectives to meet within a specified performance period. Each grant may also specify a minimum level of achievement. The specified performance period will be a period of time not less than one year, except the Board may provide for a shorter period in the case of retirement, death or disability of the participant or a change of control of the Company, if determined by the Board at the time of grant. Any such grant may also specify in respect of such specified Management Objectives, a minimum acceptable level of achievement and may set forth a formula for determining the number of Performance

Shares or Performance Units on which the performance period will terminate if the performance is at or above the minimum level, but below full achievement of the specified Management Objectives.

To the extent earned, the Performance Shares or Performance Units will be paid to the participant at the time and in the manner determined by the Board. The grant of Performance Shares or Performance Units will specify that, before the Performance Shares or Performance Units will be earned and paid, the Board must determine that the Management Objectives have been satisfied. Any grant may specify that the amount payable with respect thereto may be paid by the Company in cash, shares of Lincoln Common or any combination thereof and may either grant to the participant or retain in the Board the right to elect among those alternatives. The grant may provide for the payment of dividend equivalents thereon in cash or in shares of Lincoln Common on a current, deferred or contingent basis. Performance Shares and Performance Units will be evidenced by an evidence of award containing such terms and provisions, consistent with the 2006 EPI Plan, as the Board may approve.

Management Objectives. The 2006 EPI Plan requires that the Board establish “Management Objectives” for purposes of Performance Shares and Performance Units. When so determined by the Board, Option Rights, SARs, Restricted Shares, Restricted Stock Units or dividend credits may also specify Management Objectives. Management Objectives may be described in terms of either Company-wide objectives or objectives that are related to the performance of the individual participant or of the subsidiary, division, department, region or function within the Company or subsidiary in which the participant is employed. The Management Objectives may be made relative to the performance of other companies. Management Objectives applicable to any award to a participant who is, or is determined by the Board likely to become, a “covered employee” within the meaning of Section 162(m) of the Internal Revenue Code, if applicable to an award that is intended to satisfy the requirements for “qualified performance-based compensation” under such Section, will be limited to specified levels of or growth in:

- *Profits* (e.g., operating income, EBIT, EBIT before bonus, EBT, net income, earnings per share, residual or economic earnings — these profitability metrics could be measured before special items and/or subject to GAAP definition);
- *Cash Flow* (e.g., EBITDA, operating cash flow, total cash flow, cash flow in excess of cost of capital or residual cash flow or cash flow return on investment);
- *Returns* (e.g., profits or cash flow returns on: assets, invested capital, net capital employed, and equity);
- *Working Capital* (e.g., working capital divided by sales, days’ sales outstanding, days’ sales inventory, and days’ sales in payables);
- *Profit Margins* (e.g., profits divided by revenues, gross margins and material margins divided by revenues, and material margin divided by sales pounds);
- *Liquidity Measures* (e.g., debt-to -capital, debt-to -EBITDA, total debt ratio);
- *Sales Growth, Cost Initiative and Stock Price Metrics* (e.g., revenues, revenue growth, stock price appreciation, total return to shareholders, sales and administrative costs divided by sales, and sales and administrative costs divided by profits);
- *Strategic Initiative Key Deliverable Metrics* consisting of one or more of the following: product development, strategic partnering, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures; or

- Any of the above criteria as compared to the performance of a published or a special index deemed applicable by the Board, including, but not limited to, the Standard & Poor's 500 Stock Index.

If the Board determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Management Objectives unsuitable, the Board may in its discretion modify such Management Objectives or the minimum level or levels of achievement, in whole or in part, as the Board deems appropriate and equitable, except in the case of a qualified performance-based award to a "covered employee" where such action would result in the loss of the otherwise available exemption under Section 162(m) of the Internal Revenue Code. In such case, the Board of Directors may not make any modification of the Management Objectives or minimum level or levels of achievement with respect to such "covered employee."

The Management Objectives do not apply to the Company's cash long-term incentive plan, which the Company intends to continue to use for cash-based performance awards. At this time, the Company has not determined whether or not it will grant performance-based stock awards using Management Objectives meeting the requirements for exemption under Section 162(m) of the Internal Revenue Code under the 2006 EPI Plan in the future.

Administration. The 2006 EPI Plan provides that it is to be administered by the Board, except that the Board has the authority to delegate any or all of its powers under the 2006 EPI Plan to a committee of the Board (or a subcommittee thereof). As noted above, the Board intends to delegate its authority to the Compensation Committee. The Board is authorized to interpret the 2006 EPI Plan and related agreements and other documents. To the extent permitted by Ohio law, the Board may, from time to time, delegate to one or more officers of the Company the authority of the Board to grant and determine the terms and conditions of awards granted under the 2006 EPI Plan. However, such delegation will not be permitted with respect to awards to any executive officer or any person subject to Section 162(m) of the Internal Revenue Code.

Adjustments. The numbers and kind of shares covered by outstanding awards under the 2006 EPI Plan and, if applicable, the prices per share applicable thereto, are subject to adjustment in the event of stock dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, spin-offs, reorganizations, liquidations, issuances of rights or warrants, and similar events. In the event of any such transaction or event, the Board, in its discretion, may provide in substitution for any or all outstanding awards under the 2006 EPI Plan such alternative consideration (including cash), if any, as it may determine to be equitable in the circumstances and may require the surrender of all awards so replaced. The Board may also make or provide for such adjustments in the numbers of shares available under the 2006 EPI Plan and the other limitations contained in the 2006 EPI Plan as the Board may determine appropriate to reflect any transaction or event described above.

Detrimental Activity. Any grant may provide that if a participant, either during employment by the Company or a subsidiary or within a specified period after termination of employment, engages in any "detrimental activity" (as defined by the Board in the evidence of award), the participant shall forfeit any awards granted under the 2006 EPI Plan then held by the participant or return to the Company, in exchange for payment by the Company of any amount actually paid by the participant, all shares of Lincoln Common that the participant has not disposed of that were offered pursuant to the 2006 EPI Plan within a specified period prior to the date of the commencement of the detrimental activity. With respect to any shares of Lincoln Common acquired under the 2006 EPI Plan that the participant has disposed of, if so provided in the evidence of award for such grant, the participant will pay to the Company in cash the difference between (1) any amount actually paid therefor by the participant pursuant to the 2006 EPI Plan and (2) the market value per share of the shares on the date they were acquired.

Transferability. No Option Right or SAR granted under the 2006 EPI Plan is transferable by a participant except, upon death, by will or the laws of descent and distribution. However, the Board may

determine at the date of grant that Option Rights (other than Incentive Stock Options) and SARs may be transferred to members of the participant's "immediate family" (as defined in the 2006 EPI Plan). Except as otherwise determined by the Board, Option Rights and SARs are exercisable during the optionee's lifetime only by him or her or by his or her guardian or legal representative.

The Board may specify at the date of grant that part or all of the shares that are (1) to be issued or transferred by the Company upon exercise of Option Rights or SARs, upon termination of the restriction period applicable to Restricted Stock Units or upon payment under any grant of Performance Shares or Performance Units or (2) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in the 2006 EPI Plan with respect to Restricted Shares, will be subject to further restrictions on transfer.

Withholding Taxes. To the extent that the Company is required to withhold Federal, state, local or foreign taxes in connection with any payment made or benefit realized by a participant or other person under the 2006 EPI Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Board) may include relinquishment of a portion of such benefit. In no event shall the fair market value of the shares of Lincoln Common to be withheld and/or delivered to satisfy applicable withholding taxes in connection with the benefit exceed the minimum amount of taxes required to be withheld.

Non-U.S. Employees. The Board may provide for special terms for awards to participants who are foreign nationals or whom the Company employs outside the United States as the Board may consider necessary or appropriate to accommodate differences in local law, tax policy or custom.

Effective Date. The 2006 EPI Plan will be effective April 28, 2006 if it is approved by shareholders at the 2006 Annual Meeting.

Amendments. The Board may amend the 2006 EPI Plan from time to time without further approval by the shareholders. However, if an amendment (1) would materially increase the benefits accruing to participants under the 2006 EPI Plan; (2) would materially increase the number of securities which may be issued under the 2006 EPI Plan; (3) would materially modify the requirements for participation in the 2006 EPI Plan; or (4) must otherwise be approved by the shareholders in order to comply with applicable law or the rules and regulations of The NASDAQ stock market, the amendment will be subject to shareholder approval and will not be effective unless and until such approval is obtained. The Board will not, without further approval of the shareholders, authorize the amendment to any outstanding Option Right to reduce the option price or cancel any Option Right and replace it with an award having a lower option price.

If permitted by Section 409A of the Internal Revenue Code, in case of a termination of employment by reason of death, disability or normal or early retirement, or in the case of unforeseeable emergency or other special circumstances, of a participant who holds an Option Right or SAR not immediately exercisable in full, or any Restricted Shares as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, or any Restricted Stock Units as to which the restriction period has not been completed, or any Performance Shares or Performance Units which have not been fully earned, or any other awards made pursuant to the 2006 EPI Plan subject to any vesting schedule or transfer restriction, or who holds shares of Lincoln Common subject to any other transfer restriction imposed pursuant to the 2006 EPI Plan, the Board may, in its sole discretion, accelerate the time at which such Option Right, SAR or other award may be exercised or the time at which such substantial risk of forfeiture or prohibition or restriction on transfer will lapse or the time when such restriction period will end or the time at which such Performance Shares or Performance Units will be deemed to have been fully earned or the time when such transfer restriction will terminate or may waive any other limitation or requirement under any such award.

Term of the 2006 EPI Plan. No grant will be made under the 2006 EPI Plan more than ten years after the date on which the 2006 EPI Plan is first approved by shareholders, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of the 2006 EPI Plan.

Compliance with Section 409A of the Internal Revenue Code. To the extent applicable, it is intended that the 2006 EPI Plan and any grants made under the 2006 EPI Plan comply with the provisions of Section 409A of the Internal Revenue Code. The 2006 EPI Plan and any grants made under the 2006 EPI Plan will be administered in a manner consistent with this intent, and any provision of the 2006 EPI Plan that would cause the 2006 EPI Plan or any grant made under the 2006 EPI Plan to fail to satisfy Section 409A shall have no force and effect until amended to comply with Section 409A (which amendment may be retroactive to the extent permitted by Section 409A and may be made by the Company without the consent of the participants). Any reference to Section 409A will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

New Plan Benefits

It is not possible to determine specific amounts and types of awards that may be awarded in the future under the 2006 EPI Plan because the grant and actual pay-out of awards under the 2006 EPI Plan are discretionary.

Federal Income Tax Consequences

The following is a brief summary of some of the Federal income tax consequences of certain transactions under the 2006 EPI Plan based on Federal income tax laws in effect on January 1, 2006. This summary is not intended to be exhaustive or tax advice to any person and does not describe Federal insurance contributions or state or local tax consequences.

Tax Consequences to Participants

Nonqualified Stock Options. In general, (1) no income will be recognized by an optionee at the time a Nonqualified Stock Option is granted; (2) at the time of exercise of a Nonqualified Stock Option, ordinary income will be recognized by the optionee in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise; and (3) at the time of sale of shares acquired pursuant to the exercise of a Nonqualified Stock Option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

Incentive Stock Options. No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If shares of Lincoln Common are issued to the optionee pursuant to the exercise of an ISO, and if no disqualifying disposition of such shares is made by such optionee within two years after the date of grant or within one year after the transfer of such shares to the optionee, then upon sale of such shares, any amount realized in excess of the exercise price will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss.

If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at the time of exercise (or, if less, the amount realized on the disposition of such shares if a sale or exchange) over the exercise price paid for such shares. Any further gain (or loss) realized by the participant generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

SARs. No income will be recognized by a participant in connection with the grant of a tandem SAR or a free-standing SAR. When the SAR is exercised, the participant generally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash

received and the fair market value of any unrestricted shares of Lincoln Common received on the exercise.

Restricted Shares. The recipient of Restricted Shares generally will be subject to tax at ordinary income rates on the fair market value of the Restricted Shares (reduced by any amount paid by the participant for such Restricted Shares) at such time as the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code ("Restrictions"). However, a recipient who so elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of transfer of the shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the Restrictions) over the purchase price, if any, of such Restricted Shares. If a Section 83(b) election has not been made, any dividends received that relate to Restricted Shares subject to the Restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Stock Units. No income generally will be recognized upon the award of Restricted Stock Units. Any subsequent transfer of unrestricted shares of Lincoln Common or cash in satisfaction of such award will generally result in the recipient recognizing ordinary income at the time of transfer, in an amount equal to the aggregate amount of cash and the fair market value of the unrestricted shares of Lincoln Common received over the amount paid, if any, by the participant.

Performance Shares and Performance Units. No income generally will be recognized upon the grant of Performance Shares or Performance Units. Upon payment in respect of the earn-out of Performance Shares or Performance Units, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares of Lincoln Common received.

Tax Consequences to the Company or Subsidiary

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the participant performs services will be entitled to a corresponding deduction; provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Internal Revenue Code.

Required Vote

Approval of the 2006 EPI Plan requires the affirmative vote of a majority of the shares of Lincoln Common represented in person or by proxy at the Annual Meeting and entitled to vote on the matter. Unless otherwise directed, shares represented by proxy will be voted **FOR** the approval of the 2006 EPI Plan.

Your Board of Directors recommends that you vote FOR approval of the 2006 Equity and Performance Incentive Plan.

**APPROVAL OF 2006 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS
Proposal No. 3**

General

In March 2006, your Board of Directors approved and adopted, subject to shareholder approval, the 2006 Stock Plan for Non-Employee Directors (the "Director Plan"). The Director Plan will replace the Stock Option Plan for Non-Employee Directors, which was approved by the shareholders in 2000. If the Director Plan is approved by shareholders, no further awards will be made under the Stock Option Plan for Non-Employee Directors (the "2000 Director Plan"). The Director Plan provides for greater flexibility of stock awards as compared to the Stock Option Plan, which only provides for the award of stock options. Your Board of Directors believes that the Director Plan is in your and the Company's best interests since it will better align the non-employee Directors' compensation with creating and sustaining shareholder value. The Director Plan will also assist in attracting and retaining the highest qualified individuals to serve as Directors of the Company.

The complete text of the Director Plan is attached to this Proxy Statement as Appendix C. The following is a summary of the key terms of the Director Plan, which is qualified in its entirety by reference to the text of the Director Plan.

Summary Description of the Director Plan

General. The Director Plan provides for the award of options to purchase shares of Lincoln Common ("Options"), restricted shares ("Restricted Shares") and restricted stock units ("Restricted Stock Units"). Unless otherwise determined by the Nominating and Corporate Governance Committee of the Board (the "Governance Committee"), the Director Plan provides for the following awards of Stock Options:

- An initial Option to purchase 6,000 shares of Lincoln Common will be granted to each newly eligible Director upon his or her election to the Board.
- An annual grant of an Option to purchase 3,500 shares of Lincoln Common will be granted after each annual meeting and before the end of the calendar year to each eligible Director in office on the date of the grant.

These awards are at the same level as those provided in 2005 under the 2000 Director Plan. However, under the Director Plan (as under the 2000 Director Plan), the Governance Committee has the authority to modify the type and level of awards without further shareholder approval. The Governance Committee currently has this topic under review and is considering whether to issue Restricted Shares or Restricted Stock Units in the future instead of the Options described above, although it has not reached any conclusion on the type of award(s) or the number of shares or units that will be awarded. Options, Restricted Shares and Restricted Stock Units are described in more detail below.

Shares Available. The total number of shares of Lincoln Common available for issuance under the Director Plan is 300,000, subject to adjustment by the Governance Committee as described below under "Adjustments". If the number of shares of Lincoln Common authorized under the Director Plan is insufficient for all Options to be granted automatically, Options will be granted pro rata among all eligible Directors entitled to be granted an Option on that date. These shares may be of original issuance or treasury shares or a combination of both.

No Liberal Recycling. Shares covered by an award granted under the Director Plan will not be counted as used unless and until they are actually issued and delivered to a participant. Upon payment in cash of the benefit provided by any award granted under the Director Plan, any shares that were covered by that award will be available for issue or transfer thereunder. The following shares will not be added back to the aggregate plan limit: (a) shares tendered in payment of the exercise price of an Option; and (b) shares that are repurchased by the Company with Option proceeds.

Special Limit. The aggregate number of shares of Lincoln Common issued as Restricted Shares or in payment of Restricted Stock Units will not exceed 100,000.

Eligibility. Only non-employee Directors are eligible to receive awards under the Director Plan. For purposes of the Director Plan, an “employee” is defined as an individual whose wages are subject to the withholding of Federal income tax under Sections 3401 and 3402 of the Internal Revenue Code. Currently, there are eight Directors eligible to participate in the Director Plan.

Options. Options granted under the Director Plan will be Nonqualified Options. Options entitle the optionee to purchase shares of Lincoln Common at a predetermined price per share (which may not be less than the fair market value of Lincoln Common at the date of the grant). An Option becomes exercisable when the optionee has earned it through continuous service as a Director for one year from the date of grant. Once earned, the Option may be exercised in whole or in part with respect to 100% of the underlying shares of Lincoln Common. If an optionee ceases to be a Director by reason of death, disability or retirement or upon a change in control of the Company, all Options held by the optionee will become immediately exercisable in full.

To exercise an Option, an optionee must notify the Company of his or her intention to exercise, specifying the number of shares of Lincoln Common to be purchased. The exercise price will be payable

- in cash or by other consideration acceptable to the Company;
- at the discretion of the Governance Committee, by the transfer to the Company of shares of Lincoln Common previously owned by the optionee for at least six months and having a market value at the time of exercise equal to the total option price; or
- by a combination of both methods of payment.

To the extent permitted by applicable law, grants may provide for the deferred payment of the exercise price from the proceeds of sale through a broker on a date satisfactory to the Company of some or all of the shares of Lincoln Common to which the exercise relates. Except as otherwise determined by the Governance Committee, no Option will be transferable by the optionee otherwise than by will or the laws of descent and distribution, or pursuant to a qualified domestic relations order.

Restricted Shares. An award of Restricted Shares involves the immediate transfer of ownership of a specific number of shares of Lincoln Common by the Company to a participant in consideration of the performance of services. The participant is immediately entitled to voting, dividend and other ownership rights in those shares of Lincoln Common.

Restricted Shares must be subject to a “substantial risk of forfeiture” within the meaning of Section 83 of the Internal Revenue Code for a period of not less than three years, as determined by the Governance Committee. In order to enforce these forfeiture provisions, the transferability of Restricted Shares will be prohibited or restricted in a manner and to the extent prescribed by the Governance Committee for the period during which the forfeiture provisions are to continue. The Governance Committee may provide for a shorter period during which forfeiture provisions are to apply in the event of retirement, death or disability of the participant or a change of control of the Company.

Restricted Stock Units. An award of Restricted Stock Units involves an agreement by the Company to deliver shares of Lincoln Common or cash to the participant in the future in consideration of the performance of services. Restricted Stock Units must be subject to a restriction period of at least three years, except that the Governance Committee may provide for a shorter restriction period in the event of retirement, death or disability of the participant or a change of control of the Company.

Awards of Restricted Stock Units may be made without additional consideration or in consideration of a payment by such participant that is less than the market value per share at the date of grant. During the restriction period, the participant has no right to transfer any rights under his or her award and no right to vote such Restricted Stock Units but the Governance Committee may, at the date of grant, authorize the payment of dividend equivalents on such Restricted Stock Units on either a current or

deferred or contingent basis, either in cash or in additional shares of Lincoln Common. Each grant or sale will specify the time and manner of payment of Restricted Stock Units that have been earned. Any grant or sale may specify that the amount payable with respect thereto may be paid by the Company in cash, in shares of Lincoln Common or in any combination thereof and may either grant to the participant or retain in the Governance Committee the right to elect among those alternatives.

Administration. The Director Plan will be administered by the Governance Committee. The Governance Committee is composed exclusively of “non-employee Directors.” The Governance Committee has full authority, discretion and power, consistent with the provisions of the Director Plan, to determine

- the terms and conditions of awards under the Director Plan;
- the number of shares of Lincoln Common underlying awards to be issued; and
- the duration and nature of the awards.

Adjustments. The number and kind of shares covered by outstanding awards under the Director Plan and, if applicable, the prices per share applicable thereto, are subject to adjustment in the event of stock dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, spin-offs, reorganizations, liquidations, issuances of rights or warrants, and similar events. In the event of such transaction or event, the Governance Committee, in its discretion, may provide in substitution for any and all outstanding awards under the Director Plan such alternative consideration (including cash), if any, as it may determine to be equitable in the circumstances and may require the surrender of all awards so replaced. The Governance Committee may also make or provide for such adjustments in the numbers of shares available under the Director Plan and the other limitations contained in the Director Plan as the Governance Committee may determine appropriate to reflect any transaction or event described above.

Effective Date. The Director Plan will be effective April 28, 2006 if it is approved by shareholders at the 2006 Annual Meeting.

Amendment and Termination. The Governance Committee may amend the Director Plan from time to time, provided that any amendment that must be approved by shareholders in order to comply with Federal securities laws, other legal or regulatory requirements or the rules of The NASDAQ Stock Market or other applicable stock exchange and will not be effective unless and until shareholder approval has been obtained. The Director Plan may not be amended to increase the total number of shares of Lincoln Common reserved for it or extend the maximum option period without shareholder approval.

Term of the Director Plan. No grant will be made under the Director Plan more than ten years after the date on which the Director Plan is first approved by shareholders, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of the Director Plan.

Compliance with Section 409A of the Internal Revenue Code. To the extent applicable, it is intended that the Director Plan and any grants made under the Director Plan comply with the provisions of Section 409A of the Internal Revenue Code. The Director Plan and any grants made under the Director Plan will be administered in a manner consistent with this intent, and any provision of the Director Plan that would cause the Director Plan or any grant made under the Director Plan to fail to satisfy Section 409A shall have no force and effect until amended to comply with Section 409A (which amendment may be retroactive to the extent permitted by Section 409A and may be made by the Company without the consent of the participants). Any reference to Section 409A will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

New Plan Benefits

It is not possible to determine all the specific amounts and types of awards that will be awarded in the future under the Director Plan because the grants are discretionary. The table below sets forth the award of options for 3,500 shares of Lincoln Common, which amount represents the aggregate awards made in 2005 under the 2000 Director Plan. If the Director Plan is approved by shareholders at the 2006 Annual Meeting, the Governance Committee may make similar awards in 2006. However, as described under "General" above, the Governance Committee currently has this matter under review and has the discretion to determine the amounts and types of awards.

**New Plan Benefits
2006 Stock Plan for Non-Employee Directors**

Name	Number of Securities Underlying Options Granted under the 2006 Stock Plan for Non-Employee Directors
John M. Stropki, Jr.	N/A
Vincent K. Petrella	N/A
Frederick G. Stueber	N/A
James E. Schilling	N/A
George D. Blankenship	N/A
Executive Officer Group	N/A
Non-Executive Director Group	28,000
Non-Executive Officer Employee Group	N/A

Federal Income Tax

The following is a brief summary of certain of the Federal income tax consequences of certain transactions under the Director Plan based on Federal income tax laws in effect on January 1, 2006. This summary is not intended to be exhaustive or tax advice to any person and does not describe Federal insurance contributions or state or local tax consequences.

Tax Consequences to Participants

Options. Options granted under the Director Plan are Nonqualified Options. In general, to the extent that a non-employee Director recognizes ordinary income on the exercise of an Option, the Company will be entitled to a corresponding deduction.

Restricted Shares. The recipient of Restricted Shares generally will be subject to tax at ordinary income rates on the fair market value of the Restricted Shares (reduced by any amount paid by the participant for such Restricted Shares) at such time as the shares of Lincoln Common are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code. However, a recipient who elects under Section 83(b) of the Internal Revenue Code within 30 days of the date of transfer of the Restricted Shares will have taxable ordinary income on the date of transfer of the shares equal to the excess of the fair market value of such shares (determined without regard to the restrictions) over the purchase price, if any, of such Restricted Shares. If a Section 83(b) election has not been made, any dividends received that relate to Restricted Shares subject to restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Stock Units. No income generally will be recognized upon the award of Restricted Stock Units. Any subsequent transfer of unrestricted shares of Lincoln Common or cash in satisfaction

of such award will generally result in the recipient recognizing ordinary income at the time of transfer, in an amount equal to the aggregate amount of cash and the fair market value of the unrestricted shares of Lincoln Common received over the amount paid, if any, by the participant.

Tax Consequences to the Company

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company will be entitled to a corresponding deduction; provided, among other things, that the income meets the test of reasonableness, is an ordinary and necessary business expense and is not an “excess parachute payment” within the meaning of Section 280G of the Internal Revenue Code.

Required Vote

Approval of the Director Plan requires the affirmative vote of a majority of the shares of Lincoln Common represented in person or by proxy at the Annual Meeting and entitled to vote on the matter. Unless otherwise directed, shares represented by proxy will be voted **FOR** the approval of the Director Plan.

Your Board of Directors recommends that you vote FOR approval of the 2006 Stock Plan for Non-Employee Directors.