

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND INC  
Form N-CSR  
April 10, 2003

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number: 811-03291

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.  
(Exact name of registrant as specified in charter)

1300 South Clinton Street  
Fort Wayne, Indiana 46802  
(Address of principal executive offices) (Zip code)

Elizabeth Frederick, Esq.  
Lincoln National Life Insurance Company  
1300 South Clinton Street  
Fort Wayne, Indiana 46802  
(Name and address of agent for service)

Copies of all communications to:  
Jeffrey S. Poretz, Esq.  
Dechert LLP  
1775 Eye Street, N.W.  
Washington, D.C. 20006

Registrant's telephone number, including area code: (260) 455-2000

Date of fiscal year end: December 31, 2002

Date of reporting period: January 1, 2002 through December 31, 2002

SPECIAL OPPORTUNITIES FUND

[DELAWARE INVESTMENTS LOGO]

Lincoln National  
Special Opportunities Fund, Inc.  
Annual Report  
December 31, 2002

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.

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COMMENTARY  
STATEMENT OF NET ASSETS

# Edgar Filing: LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND INC - Form N-CSR

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OFFICER/DIRECTOR INFORMATION

LINCOLN NATIONAL  
SPECIAL OPPORTUNITIES FUND, INC.  
ANNUAL PORTFOLIO COMMENTARY  
For the year ended December 31, 2002

Managed by:

[DELAWARE INVESTMENTS LOGO]

The Lincoln National Special Opportunities Fund had a return of -11.8% for the year ended December 31, 2002, while its style specific benchmark, the Russell MidCap Value Index\*, returned -9.7% and the broader market index, the S&P MidCap 400 Index\*\*, returned -14.5%.

For 2002, the markets declined for the third year in a row -- the first series of three consecutive years of decline in over 50 years. The Fund's performance lagged the performance of the Russell Mid-Cap Value Index\* for the year. The underperformance can be attributed in part to stock selection in media and healthcare stocks. This underperformance was partially offset by stock selection in the utility and finance sectors.

Although U.S. equity markets performed strongly in the fourth quarter of 2002, much of the strength was in lower quality stocks that had, with hindsight, been oversold. We expect the current high level of volatility in stock prices to continue until investors are convinced that a sustained economic recovery has begun and corporate earnings concerns ease. However, the Federal Reserve's recent 50 basis point reduction in short-term interest rates, to levels not seen in 40 years, and improved prospects for further tax cuts, due to the Republican Party's victory in the mid-term Congressional elections, should both be interpreted positively by the equity markets. The hope is that this combination of fiscal and monetary easing will help stimulate increased economic activity in the U.S. in 2003. So, looking forward, we maintain a positive long-term view on both the economy and equity markets and thus remain committed to our process -- blending quantitative screening, fundamental research and portfolio risk control. At year end, the Fund held moderately overweight positions in the finance, healthcare and defense sectors relative to its benchmark, the Russell MidCap Value Index\*.

J. Paul Dokas

Growth of \$10,000 invested 1/1/93 through 12/31/02

(CHART)

This chart illustrates, hypothetically, that \$10,000 was invested in the Special Opportunities Fund on 1/1/93. As the chart shows, by December 31, 2002, the value of the investment at net asset value, with any dividends and distributions reinvested, would have grown to \$24,631. For comparison, look at how the S&P MidCap 400 Index and the Russell MidCap Value Index did over the same period. The same \$10,000 investment would have grown to \$30,945 and \$28,537, respectively. Past performance is not indicative of future performance. Remember, an investor cannot invest directly in an index.

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Average annual return on investment	Ended 12/31/02
-----	
One Year	-11.75%
-----	
Five Years	+ 1.31%
-----	
Ten Years	+ 9.43%
-----	

\* Russell MidCap Value Index - Measures the performance of those Russell MidCap companies with lower price-to-book ratios and lower forecasted growth values.

\*\* The S&P MidCap 400 Index is the Standard & Poor's Composite Index of 400 stocks, a widely recognized unmanaged index of common stock prices of mid-sized companies.

Special Opportunities Fund 1

LINCOLN NATIONAL  
SPECIAL OPPORTUNITIES FUND, INC.

STATEMENT OF NET ASSETS  
December 31, 2002

	Number of Shares	Market Value
COMMON STOCK - 99.56%		
-----		
AEROSPACE & DEFENSE - 0.83%		
-----		
Goodrich	104,000	\$ 1,905,280
Northrop Grumman	18,001	1,746,069
-----		
		3,651,349
AUTOMOBILES & AUTOMOTIVE PARTS - 3.08%		
-----		
Autoliv	51,000	1,067,430
+ Autonation	180,000	2,260,800
BorgWarner	35,000	1,764,700
Dana	147,800	1,738,128
Delphi	343,200	2,762,760
Genuine Parts	29,500	908,600
+ Lear	54,500	1,813,760
Magna International Class A	22,000	1,235,300
-----		
		13,551,478
BANKING & FINANCE - 15.24%		
-----		
A.G. Edwards	58,400	1,924,864
+ Affiliated Managers Group	18,500	930,550
AmSouth Bancorporation	183,000	3,513,600
Associated Banc-Corp	79,000	2,681,260
Astoria Financial	60,000	1,629,000
Bancorpsouth	57,500	1,116,650

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Banknorth	124,000	2,802,400
Bear Stearns	62,400	3,706,560
Brascan	59,000	1,209,500
Capital One Financial	34,000	1,010,480
Charter One Financial	113,400	3,257,982
Colonial BancGroup	146,000	1,741,780
Compass Bancshares	83,000	2,595,410
Countrywide Financial	60,000	3,099,000
Cullen Frost Bankers	52,500	1,716,750
First Merit	49,500	1,072,170
First Tennessee National	70,000	2,515,800
Golden West Financial	6,500	466,765
Greenpoint Financial	60,000	2,710,800
Hibernia Class A	117,800	2,266,472
Hudson United Bancorp	49,000	1,523,900
M & T Bank	16,300	1,293,405
Marshall & Ilsley	123,000	3,367,740
National Commerce Financial	117,500	2,802,375
Popular	56,500	1,909,700
Regions Financial	62,000	2,068,320
SouthTrust	89,000	2,211,650
Sovereign Bancorp	118,000	1,657,900
TCF Financial	36,000	1,572,840
Union BanCal	47,500	1,865,325
Union Planters	116,000	3,264,240
Washington Federal	28,000	695,800
Zions Bancorporation	22,000	865,678

-----  
67,066,666

BUILDINGS & MATERIALS - 2.22%

Centex	43,500	2,183,700
D.R. Horton	104,000	1,804,400
KB Home	26,000	1,114,100
Martin Marietta Materials	65,000	1,992,900
+ Toll Brothers	76,000	1,535,200
York International	44,500	1,137,865

-----  
9,768,165

	Number	Market
	of Shares	Value

-----

Fluor	57,000	\$ 1,596,000
+ Republic Services	141,000	2,958,180

-----  
4,554,180

CABLE, MEDIA & PUBLISHING - 2.67%

Belo	74,500	1,588,340
+ Borders Group	54,000	869,400
+ COX Radio Class A	28,500	650,085
+ Hearst-Argyle Television	50,500	1,217,555
Knight-Ridder	52,000	3,289,000
New York Times	35,000	1,600,550
RR Donnelley & Sons	73,500	1,600,095
+ Scholastic	26,000	934,700

-----  
11,749,725

CHEMICALS - 3.73%

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Eastman Chemical	19,000	698,630
Englehard	113,000	2,525,550
Lubrizol	69,000	2,104,500
PPG Industries	36,000	1,805,400
Praxair	68,500	3,957,245
Rohm & Haas	30,000	974,400
RPM International	119,300	1,822,904
Sigma-Aldrich	51,500	2,508,050
		16,396,679
-----		
COMPUTERS & TECHNOLOGY - 4.12%		
-----		
+ Apple Computer	77,000	1,103,410
Autodesk	104,000	1,487,200
+ Cadence Design Systems	80,000	943,200
+ Ceridian	48,000	692,160
+ Citrix Systems	40,000	492,800
Computer Associates International	84,400	1,139,400
+ Computer Sciences	88,000	3,031,600
+ Dun & Bradstreet	39,500	1,362,355
+ Emulex	52,000	964,600
+ Ingram Micro Class A	92,000	1,136,200
ITT Industries	16,000	971,040
+ Lexmark International	23,200	1,403,600
Pitney Bowes	28,000	914,480
+ Storage Technology	77,500	1,660,050
+ Xerox	101,000	813,050
		18,115,145
-----		
CONSUMER PRODUCTS - 2.50%		
-----		
Black & Decker	22,000	943,580
Fortune Brands	72,000	3,348,720
Newell Rubbermaid	129,500	3,927,735
Whirlpool	53,000	2,767,660
		10,987,695
-----		
ELECTRONICS & ELECTRICAL EQUIPMENT - 5.52%		
-----		
+ Broadcom Class A	60,000	903,600
+ Energizer Holdings	68,000	1,897,200
+ Fairchild Semiconductor Class A	53,500	572,985
+ General Motors Class H	42,000	449,400
+ International Rectifier	42,000	775,320
+ Jabil Circuit	50,200	899,584
Johnson Controls	43,500	3,487,395
+ National Semiconductor	61,000	915,610
+ Novellus Systems	38,000	1,067,040
Pittston Brink's Group	77,000	1,422,960
+ SPX	47,000	1,760,150
Symbol Technologies	94,000	772,680
Teleflex	32,000	1,372,480
Textron	85,000	3,654,150
+ Thermo Electron	121,500	2,444,580

Special Opportunities Fund 2

ELECTRONICS & ELECTRICAL

Number

Market

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EQUIPMENT (CONT'D)	of Shares	Value
+ Varco International	78,500	\$ 1,365,900
+ Vishay Intertechnology	47,000	525,460
		24,286,494
ENERGY - 6.94%		
Amerada Hess	27,200	1,497,360
Apache	69,500	3,960,805
Burlington Resources	44,100	1,880,865
Devon Energy	78,500	3,603,150
ENSCO International	50,400	1,484,280
EOG Resources	46,000	1,836,320
Equitable Resources	64,500	2,260,080
Kerr-McGee	71,000	3,145,300
Marathon Oil	127,500	2,714,475
Questar	49,000	1,363,180
Tidewater	48,000	1,492,800
Unocal	108,000	3,302,640
Valero Energy	54,500	2,013,230
		30,554,485
FOOD, BEVERAGE & TOBACCO - 3.51%		
Adolph Coors Class B	28,500	1,745,625
Archer-Daniels-Midland	298,000	3,695,200
Hershey Foods	34,500	2,326,680
Interstate Bakeries	60,000	915,000
RJ Reynolds Tobacco Holdings	60,000	2,526,600
Sensient Technologies	53,000	1,190,910
Supervalu	83,500	1,378,585
+ Yum! Brands	68,000	1,646,960
		15,425,560
HEALTHCARE & PHARMACEUTICALS - 4.45%		
Aetna	28,000	1,151,360
AmerisourceBergen Class A	21,000	1,140,510
Becton Dickinson	110,000	3,375,900
+ Health Net	87,500	2,310,000
+ Henry Schein	29,500	1,327,500
Hillenbrand Industries	44,000	2,125,640
+ Humana	107,000	1,070,000
McKesson	50,100	1,354,203
Omnicare	56,500	1,346,395
+ Priority Healthcare	42,500	986,000
+ Quintiles Transnational	91,000	1,101,100
+ Steris	41,000	994,250
+ Triad Hospitals	43,500	1,297,605
		19,580,463
INDUSTRIAL MACHINERY - 1.72%		
Dover	40,000	1,166,400
Ingersoll-Rand Class A	38,000	1,636,280
Pentair	47,000	1,623,850
Rockwell Automation	122,000	2,526,620
+ Zebra Technologies Class A	10,500	601,650
		7,554,800

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INSURANCE - 8.38%

American Financial	70,500	1,626,435
AON	45,000	850,050
Berkley	21,000	831,810
Cincinnati Financial	36,000	1,351,800
Everest Re	18,500	1,023,050
Fidelity National Financial	73,500	2,413,005
Jefferson-Pilot	33,500	1,276,685
John Hancock Financial Services	35,000	976,500
Loews	38,000	1,689,480
MBIA	88,000	3,859,680
MGIC Investment	43,500	1,796,550
Old Republic International	99,000	2,772,000
Phoenix	95,000	722,000
+ Platinum Underwriters Holdings	37,500	988,125
PMI	66,000	1,982,640
Progressive	24,000	1,191,120

INSURANCE (CONT'D)	Number of Shares	Market Value
Protective Life	71,500	\$ 1,967,680
Reinsurance Group of America	16,500	446,820
Saint Paul	55,500	1,889,775
Stancorp Financial Group	22,500	1,099,125
Torchmark	76,500	2,794,545
Transatlantic Holdings	8,200	546,940
UnumProvident	158,500	2,780,090

36,875,905

LEISURE, LODGING &  
ENTERTAINMENT - 2.86%

Eastman Kodak	92,000	3,223,680
Marriott International Class A	81,300	2,672,331
Mattel	64,000	1,225,600
+ MGM MIRAGE	55,000	1,813,350
+ Park Place Entertainment	73,000	613,200
Starwood Hotels & Resorts Worldwide	58,000	1,376,920
Viad	75,000	1,676,250

12,601,331

METALS & MINING - 1.03%

Precision Castparts	68,500	1,661,125
United States Steel	128,000	1,679,360
Vulcan Materials	31,600	1,185,000

4,525,485

PACKAGING & CONTAINERS - 1.60%

Ball	8,500	435,115
Bemis	35,000	1,737,050
+ Pactiv	110,500	2,415,530
Sonoco Products	107,000	2,453,510

7,041,205

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PAPER & FOREST PRODUCTS - 1.07%

Boise Cascade	62,000	1,563,640
Georgia-Pacific	55,000	888,800
MeadWestvaco	39,000	963,690
Temple-Inland	29,000	1,299,490
		4,715,620

REAL ESTATE - 6.32%

AMB Property	84,000	2,298,240
Archstone-Smith Trust	103,500	2,436,390
Boston Properties	30,000	1,105,800
Duke Realty	105,000	2,672,250
Equity Office Properties Trust	46,000	1,149,080
Equity Residential Properties	161,000	3,957,380
Highwoods Properties	83,500	1,845,350
+ Host Marriott	122,000	1,079,700
Kimco Realty	53,000	1,623,920
Mack-Cali Realty	63,200	1,914,960
New Plan Excel Realty Trust	75,000	1,431,750
Prologis	100,000	2,515,000
Public Storage	60,500	1,954,755
Simon Property	55,000	1,873,850
		27,858,425

RETAIL - 4.16%

Blockbuster Class A	32,000	392,000
+ Brinker International	48,000	1,548,000
Circuit City Stores	90,000	667,800
+ Federated Department Stores	117,000	3,364,920
Ikon Office Solutions	213,000	1,522,950
J.C. Penney	102,000	2,347,020
May Department Stores	58,000	1,332,840
Nordstrom	68,000	1,289,960
+ Office Depot	91,000	1,343,160
Pier 1 Imports	49,000	927,570
+ Saks	165,000	1,937,100
Winn-Dixie Stores	105,500	1,612,040
		18,285,360

Special Opportunities Fund 3

	Number of Shares	Market Value
TELECOMMUNICATIONS - 2.12%		
+ Andrew	158,000	\$ 1,624,240
CenturyTel	96,500	2,835,170
Harris	59,000	1,551,700
+ JDS Uniphase	480,000	1,185,600
Scientific-Atlanta	143,000	1,695,980
+ Tellabs	61,000	443,470
		9,336,160
TEXTILES, APPAREL & FURNITURE - 0.99%		
+ Jones Apparel	27,500	974,600



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+ Skechers USA Class A	95,000	806,550
VF	72,000	2,595,600

-----  
4,376,750

TRANSPORTATION & SHIPPING - 1.49%

Alexander & Baldwin	20,500	528,695
CSX	135,500	3,836,005
Norfolk Southern	108,800	2,174,912

-----  
6,539,612

UTILITIES - 11.97%

Ameren	45,500	1,891,435
Cinergy	70,500	2,377,260
Consolidated Edison	75,500	3,232,910
DTE Energy	96,800	4,491,520
+ Edison International	217,000	2,571,450
Energy East	116,000	2,562,440
Entergy	119,500	5,448,005
FirstEnergy	150,000	4,945,500
Great Plains Energy	69,500	1,590,160
KeySpan	99,500	3,506,380
NiSource	61,400	1,228,000
Pepco Holdings	57,000	1,105,230
+ PG&E	191,500	2,661,850
PPL	77,000	2,670,360
Public Service Enterprise	135,000	4,333,500
Sempra Energy	125,000	2,956,250
TECO Energy	85,500	1,322,685
Wisconsin Energy	101,000	2,545,200
Xcel Energy	113,000	1,243,000

-----  
52,683,135

TOTAL COMMON STOCK

(Cost \$442,777,304)

-----  
438,081,872

COMMERCIAL PAPER - 0.26%	Principal Amount	Market Value
UBS Finance 1.20% 1/2/03	\$1,130,000	\$ 1,129,962

TOTAL COMMERCIAL PAPER

(Cost \$1,129,962)

-----  
1,129,962

TOTAL MARKET VALUE OF SECURITIES - 99.82%

(Cost \$443,907,266)

-----  
439,211,834

Receivables and Other Assets Net of

Liabilities - 0.18%

-----  
772,581

NET ASSETS - 100.00%

(Equivalent to \$22.471 per share based on

19,579,863 shares issued and

outstanding)

-----  
\$439,984,415

-----  
COMPONENTS OF NET ASSETS AT DECEMBER 31, 2002:

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Common stock, par value \$0.01 per share, 50,000,000 authorized shares	\$466,420,024
Undistributed net investment income	1,711,951
Accumulated net realized loss on investments	(23,452,128)
Net unrealized depreciation of investments	(4,695,432)
-----	
TOTAL NET ASSETS	\$439,984,415
-----	

+ Non-income producing security for the year ended December 31, 2002.

See accompanying notes to financial statements.

Special Opportunities Fund 4

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.

STATEMENT OF OPERATIONS  
Year ended December 31, 2002

INVESTMENT INCOME:	
Dividends	\$ 10,888,773
-----	
Interest	34,821
-----	
TOTAL INVESTMENT INCOME	10,923,594
-----	
EXPENSES:	
Management fees	2,090,889
-----	
Accounting and administration fees	218,878
-----	
Printing and postage	128,408
-----	
Professional fees	42,695
-----	
Custody fees	24,203
-----	
Directors' fees	4,200
-----	
Other	13,233
-----	
	2,522,506
-----	
Less fees waived	(92,455)
-----	
Less expenses paid indirectly	(2,346)
-----	
TOTAL EXPENSES	2,427,705
-----	
NET INVESTMENT INCOME	8,495,889
-----	
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS:	
-----	
Net realized loss on investments	(22,338,083)
-----	

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Net change in unrealized appreciation/depreciation of investments	(50,415,703)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	(72,753,786)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$(64,257,897)

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended 12/31/2002	Year ended 12/31/2001
Changes from operations:		
Net investment income	\$ 8,495,889	\$ 8,942,534
Net realized gain (loss) on investments	(22,338,083)	20,001,395
Net change in unrealized appreciation/depreciation of investments	(50,415,703)	(18,926,319)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	(64,257,897)	10,017,610
Dividends and distributions to shareholders from:		
Net investment income	(7,102,162)	(7,567,654)
Net realized gain on investments	(2,512,598)	--
TOTAL DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS	(9,614,760)	(7,567,654)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM CAPITAL SHARE TRANSACTIONS	(26,013,097)	1,133,219
TOTAL INCREASE (DECREASE) IN NET ASSETS	(99,885,754)	3,583,175
Net assets, at beginning of period	539,870,169	536,286,994
NET ASSETS, AT END OF PERIOD	\$439,984,415	\$539,870,169

See accompanying notes to financial statements.

Special Opportunities Fund 5

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.

FINANCIAL HIGHLIGHTS

(Selected data for each capital share outstanding throughout the year)

	Year ended December 31,				
	2002	2001	2000	1999	1998

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Net asset value, beginning of year	\$ 26.006	\$ 25.846	\$ 28.225	\$ 33.416	\$ 35.056
Income from investment operations:					
Net investment income(1)	0.418	0.431	0.536	0.482	0.470
Net realized and unrealized gain (loss) on investments	(3.467)	0.098	3.153	(1.779)	1.795
-----	-----	-----	-----	-----	-----
Total from investment operations	(3.049)	0.529	3.689	(1.297)	2.265
-----	-----	-----	-----	-----	-----
Less dividends and distributions from:					
Net investment income	(0.365)	(0.369)	(0.494)	(0.373)	(0.862)
Net realized gain on investments	(0.121)	--	(5.574)	(3.521)	(3.043)
-----	-----	-----	-----	-----	-----
Total dividends and distributions	(0.486)	(0.369)	(6.068)	(3.894)	(3.905)
-----	-----	-----	-----	-----	-----
Net asset value, end of period	\$ 22.471	\$ 26.006	\$ 25.846	\$ 28.225	\$ 33.416
-----	-----	-----	-----	-----	-----
Total return(2)	(11.75%)	2.16%	16.04%	(4.48%)	6.79%
Ratios and supplemental data:					
Net assets, end of period (000 omitted)	\$439,984	\$539,870	\$536,287	\$665,642	\$917,796
Ratio of expenses to average net assets	0.47%	0.48%	0.49%	0.44%	0.42%
Ratio of expenses to average net assets prior to fees waived and expenses paid indirectly	0.49%	0.48%	0.49%	0.44%	0.42%
Ratio of net investment income to average net assets	1.67%	1.65%	2.15%	1.46%	1.44%
Ratio of net investment income to average net assets prior to fees waived and expenses paid indirectly	1.65%	1.65%	2.15%	1.46%	1.44%
Portfolio turnover	55%	73%	75%	96%	76%

(1) The average shares outstanding method has been applied for per share information for the years ended December 31, 2002, 2001 and 2000.

(2) Total return percentages in this table are calculated on the basis prescribed by the Securities and Exchange Commission.

See accompanying notes to financial statements.

Special Opportunities Fund 6

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

THE FUND: Lincoln National Special Opportunities Fund, Inc. (the "Fund") is registered as an open-end, diversified management investment company under the Investment Company Act of 1940, as amended. The Fund's shares are sold only to The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York (the "Companies") for allocation to their variable annuity products and variable universal life products.

The Fund's investment objective is to maximize long-term capital appreciation.

1. SIGNIFICANT ACCOUNTING POLICIES

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The following accounting policies are in accordance with accounting principles generally accepted in the United States and are consistently followed by the Fund.

**SECURITY VALUATION:** All equity securities are valued at the last quoted sales price as of the time of the regular close of the New York Stock Exchange (NYSE) on the valuation date. If on a particular day an equity security does not trade, then the mean between the bid and asked prices will normally be used. Short-term debt securities having less than 60 days to maturity are valued at amortized cost, which approximates market value. Other securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Fund's Board of Directors. In determining whether market quotations are readily available or fair valuation will be used, various factors will be taken into consideration, such as market closures, or with respect to foreign securities, aftermarket trading or significant events after local market trading (e.g. government actions or pronouncements, trading volume or volatility on markets, exchanges among dealers, or news events).

**FEDERAL INCOME TAXES:** The Fund intends to continue to qualify for federal income tax purposes as a regulated investment company and make the requisite distributions to shareholders. Accordingly, no provision for federal income taxes has been made in the financial statements.

**USE OF ESTIMATES:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**OTHER:** Security transactions are accounted for on the date the securities are purchased or sold (trade date). Costs used in calculating realized gains and losses on the sale of investment securities are those of the specific securities sold. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. The Fund declares and distributes dividends from net investment income, if any, semi-annually. Distributions from net realized gains, if any, are declared and distributed annually.

The Fund receives earnings credits from its custodian when positive cash balances are maintained, which are used to offset custody fees. The earnings credits for the year ended December 31, 2002, were approximately \$2,346. The expense paid under the above arrangement is included under custodial fees on the Statement of Operations with the expense offset shown as "expenses paid indirectly".

### 2. MANAGEMENT FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Effective May 1, 2002, Delaware Management Company (DMC) is responsible for overall management of the Fund's investment portfolio and provides certain administrative services to the Fund. DMC is a series of Delaware Management Business Trust (DMBT), a multi-series business trust registered with the Securities and Exchange Commission as an investment adviser. DMBT is an indirect wholly-owned subsidiary of Lincoln National Corporation (LNC). For its services, DMC receives a management fee at an annual rate of 0.48% of the first \$200 million of the average daily net assets of the Fund, 0.40% of the next \$200 million, and 0.30% of the average daily net assets of the Fund in excess of \$400 million.

Prior to May 1, 2002, Vantage Investment Advisers (VIA), an affiliate of DMC, served as the investment manager to the Fund under identical terms.

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## Special Opportunities Fund 7

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

During the year ended December 31, 2002, DMC and VIA contractually waived a portion of their management fees in the amount of \$92,455. Effective January 1, 2003, this waiver was discontinued in connection with stockholder approval of the amended Management Agreement as discussed below on December 9, 2002.

If the aggregate annual expenses of the Fund, including the management fee, but excluding taxes, interest, brokerage commissions relating to the purchase or sale of portfolio securities and extraordinary non-recurring expenses, exceed 1.50% of the average daily net assets of the Fund, DMC has agreed to reimburse the Fund in the amount of such excess. No reimbursement was due for the year ended December 31, 2002.

Delaware Service Company, Inc. (DSC), an affiliate of DMC, provides accounting services and other administration support to the Fund. For these services, the Fund pays DSC a monthly fee based on average net assets, subject to certain minimums.

At December 31, 2002, the Fund had payables to affiliates as follows:

Management Fees Payable to DMC	\$153,844
Accounting and Administration Fees Payable to DSC	32,186

On December 9, 2002, stockholders of the Fund approved an amended Management Agreement between the Fund and DMC that is effective January 1, 2003. The Fund will incur additional fees and expenses under the new agreement because certain expenses relating to the administration of the Fund's affairs and the maintenance of the Fund's books and records will be paid by the Fund rather than the investment adviser.

In connection with the amended Management Agreement, the Board of Directors of the Fund approved an Administration Agreement with Lincoln National Life Insurance Company (Lincoln Life), an affiliate of DMC, dated January 1, 2003. Pursuant to the Administration Agreement, Lincoln Life will provide various administrative services necessary for the operation of the Fund. For these services, the Fund will pay Lincoln Life an annual fee of \$15,000 plus the cost of certain support services, such as legal and corporate secretary services.

Certain officers and directors of the Fund are also officers or directors of the Companies and receive no compensation from the Fund. The compensation of unaffiliated directors of the Fund is borne by the Fund.

### 3. INVESTMENTS

For the year ended December 31, 2002, the Fund made purchases of \$282,312,202 and sales of \$310,468,114 of investment securities other than short-term investments. At December 31, 2002, the cost of investments for federal income tax purposes was \$444,316,490. At December 31, 2002, net unrealized depreciation was \$5,104,656, of which \$37,299,379 related to unrealized appreciation of investments and \$42,404,035 related to unrealized depreciation of investments.

### 4. DIVIDEND AND DISTRIBUTION INFORMATION

Income and long-term capital gain distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles

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generally accepted in the United States. Ordinary income includes dividends from net investment income and distributions from short-term capital gains. The tax character of dividends and distributions paid during the years ended December 31, 2002 and 2001 were as follows:

	Year ended 12/31/02	Year ended 12/31/01
	-----	-----
Ordinary income	\$7,102,162	\$7,567,654
Long-term capital gain	2,512,598	--
	-----	-----
Total	\$9,614,760	\$7,567,654
	=====	=====

In addition, the Fund declared an ordinary income consent dividend of \$1,056,656 for the year ended December 31, 2001. Such amount has been deemed paid and contributed to the Fund as additional paid-in capital.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2002, the components of net assets on a tax basis were as follows:

Shares of beneficial interest	\$466,420,024
Undistributed ordinary income	1,711,951
Capital loss carryforwards	(22,074,286)
Post-October losses	(968,618)
Unrealized depreciation of investments	(5,104,656)
	-----
Net assets	\$439,984,415
	=====

For federal income tax purposes, capital loss carryforwards may be carried forward and applied against future capital gains. Such capital loss carryforwards expire as follows: \$22,074,286 expires in 2010.

Post-October losses represent losses realized on investment transactions from November 1, 2002 through December 31, 2002, that, in accordance with federal income tax regulations, the Fund has elected to defer and treat as having arisen in the following fiscal year.

5. CAPITAL SHARES

Transactions in capital shares were as follows:

Capital Shares		Shares Issued Upon Reinvestment of		Capital Shares	
Sold		Dividends and Distributions		Redeemed	
-----	-----	-----	-----	-----	-----
Shares	Amount	Shares	Amount	Shares	Amo

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Year ended December 31, 2002:	1,204,035	\$32,376,305	420,406	\$9,614,760	(2,804,338)	\$ (6
Year ended December 31, 2001:	1,340,283	\$34,495,032	314,284	\$7,567,654	(1,644,323)	\$ (4

Net Increase (Decrease)  
Resulting From Capital  
Share Transactions

	Shares	Amount
Year ended December 31, 2002:	(1,179,897)	\$ (26,013,097)
Year ended December 31, 2001:	10,244	\$ 1,133,219

6. LINE OF CREDIT

The Fund, along with certain other Lincoln National Mutual Funds (the "Participants"), participates in a \$50,000,000 Credit Agreement to be used for temporary or emergency purposes as an additional source of liquidity to fund redemptions of investor shares. The Participants are charged an annual commitment fee, which is allocated among the Participants in accordance with the agreement. Effective January 1, 2003, the Fund may borrow up to 33 1/3% of its total assets (including the amount borrowed). The Fund had no amount outstanding at December 31, 2002, or at any time during the year.

7. TAX INFORMATION (UNAUDITED)

For the fiscal year ended December 31, 2002, the Fund designates distributions paid during the year as follows:

(A)	(B)	Total	(C)
Long-Term Capital Gains Distributions	Ordinary Income Distributions	Distributions (Tax Basis)	Qualifying(1) Dividends
26%	74%	100%	100%

Items (A) and (B) are based on a percentage of the Fund's total distributions.

Item (C) is based on a percentage of ordinary income of the Fund.

(1) Qualifying dividends represent dividends which qualify for the corporate dividends received deduction.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. PROXY RESULTS (UNAUDITED)

Lincoln National Special Opportunities Fund, Inc., shareholders voted on the following proposals at the special meeting of shareholders on December 9, 2002, or as adjourned. The resulting votes are presented below.



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	Outstanding Shares	Total Voted
<hr/>		
1. To elect five Directors of the Fund to hold office until their respective successors have been duly elected and qualified or until their earlier resignation or removal.		
John B. Borsch, Jr.	20,082,672	20,082,672
Kelly D Clevenger	20,082,672	20,082,672
Nancy L. Frisby	20,082,672	20,082,672
Barbara S. Kowalczyk	20,082,672	20,082,672
Kenneth G. Stella	20,082,672	20,082,672
	Outstanding Shares	Total Voted
<hr/>		
2. To approve a reorganization to change Fund from a Maryland corporation to a series of a Delaware business trust.	20,082,672	20,082,672
3. To approve a proposal that would permit the Fund to enter into or materially change sub-advisory agreements with sub-advisers without obtaining stockholder approval.	20,082,672	20,082,672
4. To approve a new investment management agreement between the Fund and their current investment adviser, Delaware Management Company, a series of Delaware Management Business Trust.	20,082,672	20,082,672
5. To approve the amendment of certain Fundamental Investment Restrictions.		
5A) Amendment to Fundamental Restrictions on Concentration of Investments in the Same Industry.	20,082,672	20,082,672
5B) Amendment to Fundamental Restrictions on Borrowing Money and Issuing Senior Securities.	20,082,672	20,082,672
5C) Amendment to Fundamental Restrictions on Underwriting.	20,082,672	20,082,672
5D) Amendment to Fundamental Restrictions on Investments in Real Estate.	20,082,672	20,082,672
5E) Amendment to Fundamental Restrictions on Investments in Commodities or Commodity Issues.	20,082,672	20,082,672
5F) Amendment to Fundamental Restrictions on Lending.	20,082,672	20,082,672
5G) Amendment to Fundamental Restrictions on Diversification.	20,082,672	20,082,672
6. To approve the elimination of certain Fundamental Investment Restrictions.		
6A) Elimination of Fundamental Restrictions on Investments in Other Investment Companies.	20,082,672	20,082,672
6B) Elimination of Fundamental Restrictions on Selling Securities Short.	20,082,672	20,082,672
6C) Elimination of Fundamental Restrictions on Margin Transactions.	20,082,672	20,082,672
6D) Elimination of Fundamental Restrictions on Pledging Fund Assets.	20,082,672	20,082,672
6E) Elimination of Fundamental Restrictions on Illiquid and Restricted Securities.	20,082,672	20,082,672
6F) Elimination of Fundamental Restrictions on Purchase of Put and Call Options.	20,082,672	20,082,672
6G) Elimination of Fundamental Restrictions on Investments in Companies for the Purpose of Acquiring Control.	20,082,672	20,082,672

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LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.  
 REPORT OF INDEPENDENT AUDITORS  
 TO THE SHAREHOLDERS AND BOARD OF DIRECTORS  
 LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC.

We have audited the accompanying statement of net assets of Lincoln National Special Opportunities Fund, Inc. (the "Fund") as of December 31, 2002, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Lincoln National Special Opportunities Fund, Inc. at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States.

[ERNST & YOUNG LLP]

Philadelphia, Pennsylvania  
 February 7, 2003

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OFFICER/DIRECTOR INFORMATION

Name, address and date of birth	Position(s) held with the funds	Term of office and length of time served	Principal occupation(s) during the past five years
Kelly D. Clevenger(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 07/25/52	Chairman, President and Director	Chairman since August 1995; President and Director since November 1994	Vice President, The Lincoln National Life Insurance Company. Vice President, Lincoln Retirement Services Company, LLC; Second Vice President, Lincoln Life & Annuity Company of New York

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Barbara S. Kowalczyk Centre Square, West Tower 1500 Market St., Suite 3900 Philadelphia, PA 19102 DOB: 04/07/51	Director	Director since November 1993	Senior Vice President, Corporate Planning and Development, Lincoln National Corporation (insurance holding company); Senior Vice President, Lincoln National Management Corporation
John B. Borsch, Jr. 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 06/09/33	Director	Director since December 1981	Retired; formerly Associate Vice President, Investments, Northwestern University
Nancy L. Frisby 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 11/10/41	Director	Director since April 1992	Vice President and Chief Financial Officer, DeSoto Memorial Hospital; formerly Chief Financial Officer, Bascom Palmer Eye Institute, University of Miami School of Medicine; formerly Vice President and Chief Financial Officer, St. Joseph Medical Center, Inc.
Kenneth G. Stella 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 08/20/43	Director	Director since February 1998	President, Indiana Hospital & Health Association
Frederick J. Crawford(1) Centre Square, West Tower, 1500 Market Street, Suite 3900 Philadelphia, PA 19102 DOB: 08/03/63	Vice President and Treasurer	Vice President and Treasurer since January 2001	Vice President and Treasurer, Lincoln National Corporation; formerly President and Market Manager, Greater Cincinnati Region, Bank One, N.A.
Cynthia A. Rose(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 04/24/54	Secretary	Secretary since February 1995	Secretary and Assistant Vice President, The Lincoln National Life Insurance Company; formerly Assistant Secretary, Lincoln National Corporation
William P. Flory, Jr.(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 09/02/61	Assistant Vice President and Chief Accounting Officer	Chief Accounting Officer since May 2002	Assistant Vice President, The Lincoln National Life Insurance Company; formerly Vice President, MetLife Investors; formerly Assistant Vice President, MetLife Investors; formerly Accounting Manager, Transamerica Life Companies
Steven M. Kluever(1)	Second Vice	Second Vice	Second Vice President,

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1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 08/04/62	President	President since August 1999; Assistant Vice President since August 1997	The Lincoln National Life Insurance Company; Second Vice President, Lincoln Life & Annuity Company of New York
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Name, address and date of birth  -----	Other directorships held by Director  -----
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Kelly D. Clevenger(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 07/25/52	Lincoln Retirement Services Company, LLC
Barbara S. Kowalczyk Centre Square, West Tower 1500 Market St., Suite 3900 Philadelphia, PA 19102 DOB: 04/07/51	Lincoln National Management Corporation; The Lincoln National Life Insurance Company; Lincoln Financial Group Foundation, Inc.; Lincoln Life & Annuity Company of New York; Lincoln National (UK) PLC (financial services company)
John B. Borsch, Jr. 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 06/09/33	N/A
Nancy L. Frisby 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 11/10/41	N/A
Kenneth G. Stella 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 08/20/43	First National Bank & Trust
Frederick J. Crawford(1) Centre Square, West Tower, 1500 Market Street, Suite 3900 Philadelphia, PA 19102 DOB: 08/03/63	N/A
Cynthia A. Rose(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 04/24/54	N/A
William P. Flory, Jr.(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 09/02/61	N/A
Steven M. Kluever(1) 1300 S. Clinton Street Fort Wayne, IN 46802 DOB: 08/04/62	N/A

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 Additional information on the officers and directors can be found in the  
 Statement of Additional Information ("SAI") to the Fund's prospectus. To obtain

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a free copy of the SAI, write: Lincoln National Life Insurance Company, P.O. Box 2340, Fort Wayne, Indiana 46801, or call 1-800-4LINCOLN (454-6265). The SAI is also available on the SEC's web site (<http://www.sec.gov>).

- (1) All of the executive officers are "interested persons" of the Fund, as that term is defined by Section 2(a)(19) of the 1940 Act, by reason of their being officers of the Fund.
- (2) The officers and directors are re-elected annually. The officers and directors hold their position with the Fund until retirement or resignation. The Bylaws of the Funds do not specify a term of office.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN NATIONAL SPECIAL OPPORTUNITIES FUND, INC. (Registrant)

By /s/ Kelly D. Clevenger  
 -----  
 Kelly D. Clevenger  
 President  
 (Signature and Title)

Date March 7, 2003  
 -----

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Kelly D. Clevenger  
 -----  
 Kelly D. Clevenger  
 Chairman, President and Director  
 (Signature and Title)

Date March 7, 2003  
 -----

By /s/ William P. Flory, Jr.  
 -----  
 William P. Flory, Jr.  
 Assistant Vice President and Chief Accounting Officer  
 (Signature and Title)

Date March 7, 2003  
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