LINCOLN NATIONAL CORP
Form 10-Q
November 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2009
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-6028

LINCOLN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1140070 (I.R.S. Employer Identification No.)
150 N. Radnor Chester Road, Radnor, Pennsylvania (Address of principal executive offices)	19087 (Zip Code)

(484) 583-1400
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of November 2, 2009, there were 302,080,185 shares of the registrant’s common stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	As of September 30, 2009 (Unaudited)	As of December 31, 2008
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2009 – $60,442; 2008 – $54,381)	$ 60,666	$ 48,141
Equity (cost: 2009 – $393; 2008 – $428)	283	254
Trading securities	2,548	2,333
Mortgage loans on real estate	7,277	7,715
Real estate	154	125
Policy loans	2,893	2,921
Derivative investments	1,282	3,397
Other investments	1,080	1,624
Total investments	76,183	66,510
Cash and invested cash	3,161	5,589
Deferred acquisition costs and value of business acquired	9,182	11,402
Premiums and fees receivable	323	449
Accrued investment income	943	814
Reinsurance recoverables	7,664	8,396
Reinsurance related embedded derivatives	-	31
Goodwill	3,096	3,696
Other assets	10,827	10,594
Separate account assets	70,111	55,655
Total assets	$ 181,490	$ 163,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 15,970	$ 18,431
Other contract holder funds	63,956	60,570
Short-term debt	400	815
Long-term debt	4,789	4,731
Reinsurance related embedded derivatives	39	-
Funds withheld reinsurance liabilities	1,220	2,042
Deferred gain on business sold through reinsurance	511	619
Payables for collateral on investments	2,240	3,706
Other liabilities	10,598	8,590
Separate account liabilities	70,111	55,655
Total liabilities	169,834	155,159
Contingencies and Commitments (See Note 11)		

Stockholders' Equity		
Series A preferred stock – 10,000,000 shares authorized; 11,547 and 11,562 shares issued and outstanding as of September 30, 2009, and December 31, 2008, respectively	-	-
Series B preferred stock – 950,000 shares authorized and outstanding as of September 30, 2009	800	-
Common stock – 800,000,000 shares authorized; 302,073,869 and 255,869,859 shares issued and outstanding as of September 30, 2009, and December 31, 2008, respectively	7,842	7,035
Retained earnings	3,234	3,745
Accumulated other comprehensive loss	(220)	(2,803)
Total stockholders' equity	11,656	7,977
Total liabilities and stockholders' equity	$ 181,490	$ 163,136

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Insurance premiums	$491	$514	$1,541	$1,507
Insurance fees	766	754	2,158	2,314
Net investment income	1,071	1,068	3,055	3,170
Realized loss:				
Total other-than-temporary impairment losses on securities	(148)	(237)	(578)	(395)
Portion of loss recognized in other comprehensive income	68	-	259	-
Net other-than-temporary impairment losses on securities recognized in earnings	(80)	(237)	(319)	(395)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(288)	30	(684)	49
Total realized loss	(368)	(207)	(1,003)	(346)
Amortization of deferred gain on business sold through reinsurance	18	19	56	57
Other revenues and fees	103	122	293	369
Total revenues	2,081	2,270	6,100	7,071
Benefits and Expenses				
Interest credited	623	625	1,848	1,849
Benefits	569	813	2,072	2,118
Underwriting, acquisition, insurance and other expenses	760	642	2,103	2,065
Interest and debt expense	68	69	130	209
Impairment of intangibles	(1)	-	601	175
Total benefits and expenses	2,019	2,149	6,754	6,416
Income (loss) from continuing operations before taxes	62	121	(654)	655
Federal income tax expense (benefit)	(19)	(8)	(141)	162
Income (loss) from continuing operations	81	129	(513)	493
Income (loss) from discontinued operations, net of federal income taxes	72	19	(74)	69
Net income (loss)	153	148	(587)	562
Preferred stock dividends and accretion of discount	(16)	-	(16)	-
Net income (loss) available to common stockholders	$137	$148	$(603)	$562
Earnings (Loss) Per Common Share – Basic				
Income (loss) from continuing operations	$0.21	$0.51	$(1.94)	$1.91
Income (loss) from discontinued operations	0.24	0.07	(0.27)	0.27
Net income (loss)	$0.45	$0.58	$(2.21)	$2.18
Earnings (Loss) Per Common Share – Diluted				
Income (loss) from continuing operations	$0.21	$0.51	$(1.94)	$1.90
Income (loss) from discontinued operations	0.23	0.07	(0.27)	0.26

Net income (loss)	$0.44	$0.58	$(2.21)	$2.16

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30,	
	2009	2008
Preferred Stock		
Balance as of beginning-of-year	$ -	$ -
Issuance of Series B preferred stock	794	-
Accretion of discount on Series B preferred stock	6	-
Balance as of end-of-period	800	-
Common Stock		
Balance as of beginning-of-year	7,035	7,200
Issuance of common stock	652	-
Issuance of common stock warrant	156	-
Stock compensation/issued for benefit plans	(6)	51
Deferred compensation payable in stock	5	4
Retirement of common stock/cancellation of shares	-	(249)
Balance as of end-of-period	7,842	7,006
Retained Earnings		
Balance as of beginning-of-year	3,745	4,293
Cumulative effect from adoption of new accounting standards	102	(4)
Comprehensive income (loss)	2,098	(1,473)
Other comprehensive income (loss), net of tax	(2,685)	2,035
Net income (loss)	(587)	562
Retirement of common stock	-	(227)
Dividends declared: Common (2009 - $0.03; 2008 - $1.245)	(10)	(320)
Dividends on preferred stock	(10)	-
Accretion of discount on Series B preferred stock	(6)	-
Balance as of end-of-period	3,234	4,304
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	(2,803)	225
Cumulative effect from adoption of new accounting standards	(102)	-
Other comprehensive income (loss), net of tax	2,685	(2,035)
Balance as of end-of-period	(220)	(1,810)
Total stockholders' equity as of end-of-period	$ 11,656	$ 9,500

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2009	2008
Cash Flows from Operating Activities		
Net income (loss)	$(587)	$562
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front end loads deferrals and interest, net of amortization	(217)	(492)
Trading securities purchases, sales and maturities, net	(36)	141
Change in premiums and fees receivable	244	47
Change in accrued investment income	(129)	(78)
Change in future contract benefits	(694)	159
Change in other contract holder funds	205	202
Change in funds withheld reinsurance liabilities and reinsurance recoverables	167	(57)
Change in federal income tax accruals	(27)	(228)
Realized loss	1,003	346
Loss on disposal of discontinued operations	220	13
Gain on early extinguishment of debt	(64)	-
Impairment of intangibles	601	175
Amortization of deferred gain on business sold through reinsurance	(56)	(57)
Other	(78)	78
Net cash provided by operating activities	552	811
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(11,468)	(5,578)
Sales of available-for-sale securities	2,850	1,803
Maturities of available-for-sale securities	2,533	2,978
Purchases of other investments	(3,232)	(1,848)
Sales or maturities of other investments	3,521	1,383
Increase (decrease) in payables for collateral on investments	(1,466)	533
Proceeds from sale of subsidiaries/businesses and from disposal of discontinued operations	13	645
Other	(51)	(90)
Net cash used in investing activities	(7,300)	(174)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(522)	(285)
Issuance of long-term debt, net of issuance costs	491	450
Decrease in commercial paper, net	(166)	(145)
Deposits of fixed account values, including the fixed portion of variable	8,805	7,366
Withdrawals of fixed account values, including the fixed portion of variable	(4,282)	(4,373)
Transfers to and from separate accounts, net	(1,566)	(1,838)
Payment of funding agreements	-	(550)
Common stock issued for benefit plans and excess tax benefits	-	32

Issuance of Series B preferred stock and associated common stock warrant	950	-
Issuance of common stock	652	-
Repurchase of common stock	-	(476)
Dividends paid to common and preferred stockholders	(64)	(323)
Net cash provided by (used in) financing activities	4,298	(142)
Net increase (decrease) in cash and invested cash, including discontinued operations	(2,450)	495
Cash and invested cash, including discontinued operations, as of beginning-of-year	5,926	1,665
Cash and invested cash, including discontinued operations, as of end-of-period	$3,476	$2,160

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 17 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life ("UL") insurance, variable universal life ("VUL") insurance, term life insurance and mutual funds.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine month period ended September 30, 2009, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009. All material intercompany accounts and transactions have been eliminated in consolidation.

We have evaluated our subsequent events through the time of filing this Form 10-Q with the SEC, on November 6, 2009.

Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. These reclassifications have no effect on net income or stockholders' equity of the prior periods.

2. New Accounting Standards

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162" ("SFAS 168"). The FASB Accounting Standards CodificationTM ("ASC") is now the single source of authoritative GAAP recognized by the FASB. Although the FASB ASC does not change current GAAP, it supersedes all existing non-SEC accounting and reporting standards as of the effective date. The accounting guidance in the FASB ASC is organized by topical reference, with all the contents having the same level of authority. In accordance with Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 – Generally Accepted Accounting Principles – amendments based on – Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles" ("ASU 2009-01") the guidance in SFAS 168 will remain authoritative until it has been integrated into the FASB ASC. We adopted SFAS 168 as of September 30, 2009, and have revised all of the referencing of GAAP accounting standards in this filing to reflect the appropriate references in the new FASB ASC.

Business Combinations Topic

In December 2007, the FASB revised the accounting guidance related to the Business Combinations Topic of the FASB ASC. This revised accounting guidance retains the fundamental requirements of the business combination accounting standard, but establishes revised principles and requirements for the acquirer in a business combination to recognize and measure the identifiable assets acquired, liabilities assumed and any noncontrolling interests in the acquiree and the goodwill acquired or the gain from a bargain purchase. For a more detailed description of this accounting guidance see "SFAS No. 141(R) – Business Combinations" in Note 2 of our 2008 Form 10-K. We adopted these revisions for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

In April 2009, the FASB further amended the guidance in the Business Combinations Topic related to the recognition and measurement of contingencies acquired in a business combination. Contingent assets acquired and liabilities assumed (jointly referred to as "pre-acquisition contingencies") in a business combination are measured as of the acquisition-date fair value only if fair value can be determined during the measurement period. If the fair value cannot be determined during the measurement period, but information is available as of the end of the measurement period indicating the pre-acquisition contingency is both probable and can be reasonably estimated, then the pre-acquisition contingency is recognized as of the acquisition date based on the estimated amount. Subsequent to the acquisition date, the measurement of pre-acquisition contingencies is dependent on the nature of the contingency. We adopted these amendments for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

Consolidations Topic

In December 2007, the FASB amended the Consolidations Topic of the FASB ASC in order to establish accounting and reporting standards surrounding noncontrolling interests, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. For a more detailed description of these amendments see "SFAS No. 160 – Noncontrolling Interests in Consolidated Financial Statements – an Amendment of Accounting Research Bulletin No. 51" in Note 2 of our 2008 Form 10-K. We adopted these amendments effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Derivatives and Hedging Topic

In March 2008, the FASB amended the Derivatives and Hedging Topic of the FASB ASC to expand the qualitative and quantitative disclosure requirements for derivative instruments and hedging activities. For a more detailed description of the new disclosure requirements, see "SFAS No. 161 – Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133" in Note 2 of our 2008 Form 10-K. The amended and expanded disclosure requirements apply to all derivative instruments within the scope of the Derivatives and Hedging Topic, nonderivative hedging instruments and all hedged items designated and qualifying as hedges. We adopted these amendments effective January 1, 2009, and have prospectively included the enhanced disclosures related to derivative instruments and hedging activities in Note 6.

In addition, in June 2008, the FASB amended the Derivatives and Hedging Topic regarding the evaluation of an instrument (or embedded feature) indexed to an entity's own stock. The amendments to the accounting guidance require a two-step process to determine whether an equity-linked instrument (or embedded feature) is indexed to an entity's own stock first by evaluating the instrument's contingent exercise provisions, if any, and second, by evaluating the instrument's settlement provisions. We adopted this updated accounting guidance on January 1, 2009, for all outstanding instruments as of that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Fair Value Measurements and Disclosures Topic

In February 2008, the FASB amended the Fair Value Measurements and Disclosures Topic of the FASB ASC in order to delay the effective date of fair value measurement for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We applied fair value measurement to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009. The application did not have a material impact on our consolidated financial condition and results of operations.

In addition, in April 2009, the FASB amended the Fair Value Measurements and Disclosures Topic to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability and additional guidance on circumstances that may indicate a transaction is not orderly. The FASB provided illustrative examples of key considerations when applying fair value measurement principles to estimate fair value in nonactive markets when there has been a significant decrease in the volume and level of activity for the asset. Additional financial statement disclosures are also required about an entity's fair value measurements in annual and interim reporting periods. Any changes in valuation techniques resulting from the adoption of this amended guidance are accounted for as a change in accounting estimate in accordance with the FASB ASC guidance related to accounting changes and error corrections. As permitted under the transition guidance, we elected to early adopt these amendments to the Fair Value Measurements and Disclosures Topic effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

Financial Instruments Topic

In April 2009, the FASB extended the financial statement disclosures under the Financial Instruments Topic of the FASB ASC to require that the fair value of financial instrument disclosures be included in the notes to the interim financial statements. In addition, entities must disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in the financial statements on an interim basis and to highlight any change in the method(s) and significant assumptions used from prior periods. We included the disclosures related to the fair value of financial instruments as of June 30, 2009, and have included these enhanced disclosures in Note 16.

Financial Services – Insurance Industry Topic

In May 2008, the FASB updated the Financial Services – Insurance Industry Topic of the FASB ASC with accounting guidance applicable to financial guarantee insurance and reinsurance contracts not accounted for as derivative instruments. For a more detailed description of these amendments, see "SFAS No. 163 – Accounting for Financial Guarantee Insurance Contracts – an Interpretation of FASB Statement No. 60" in Note 2 of our 2008 Form 10-K. We do not hold a significant amount of financial guarantee insurance and reinsurance contracts, and as such, the adoption on January 1, 2009, did not have a material impact on our consolidated financial condition and results of operations.

Intangibles – Goodwill and Other Topic

In April 2008, the FASB amended the Intangibles – Goodwill and Other Topic of the FASB ASC related to the determination of the useful life of intangible assets. For a more detailed description of these amendments, see "FSP FAS No. 142-3 – Determination of the Useful Life of Intangible Assets" in Note 2 of our 2008 Form 10-K. We adopted these amendments effective January 1, 2009, and applied the guidance prospectively to recognized intangible assets acquired after the effective date and applied the disclosure requirements to all intangible assets recognized as of, and subsequent to, the effective date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Investments – Debt and Equity Securities Topic

In April 2009, the FASB replaced the guidance in the Investments – Debt and Equity Securities Topic of the FASB ASC related to other-than-temporary impairments ("OTTI"). Under this new accounting guidance, management's assertion that it has the intent and ability to hold an impaired debt security until recovery is replaced by the requirement for management to assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. If management intends to sell the debt security or it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, an OTTI shall be recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value as of the balance sheet date. After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings.

If management does not intend to sell the debt security and it is not more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, but the present value of the cash flows expected to be collected is less than the amortized cost basis of the debt security (referred to as the credit loss), an OTTI is considered to have occurred. In this instance, the total OTTI must be bifurcated into the amount related to the credit loss, which is recognized in earnings, with the remaining amount of the total OTTI attributed to other factors (referred to as the noncredit portion) recognized as a separate component in other comprehensive income (loss) ("OCI"). After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. In addition, the amendments to this topic expand and increase the frequency of existing disclosures about OTTIs for debt and equity securities regarding expected cash flows, credit losses and the aging of securities with unrealized losses.

As permitted by the transition guidance, we elected to early adopt the amendments to the Investments – Debt and Equity Securities Topic effective January 1, 2009, by recording an increase of $102 million to the opening balance of retained earnings with a corresponding decrease to accumulated OCI on our Consolidated Statements of Stockholders' Equity to reclassify the noncredit portion of previously other-than-temporarily impaired debt securities held as of January 1, 2009. The following summarizes the components (in millions) for this cumulative effect adjustment:

	Unrealized OTTI on AFS Securities	Net Unrealized Loss on AFS Securities	Total
Increase in amortized cost of fixed maturity available-for-sale ("AFS") securities	$34	$165	$199
Change in DAC, VOBA, DSI and DFEL	(7)	(35)	(42)
Income tax	(9)	(46)	(55)
Net cumulative effect adjustment	$18	$84	$102

The cumulative effect adjustment was calculated for all debt securities held as of January 1, 2009, for which an OTTI was previously recognized, but as of January 1, 2009, we did not intend to sell the security and it was not more likely than not that we would be required to sell the security before recovery of its amortized cost, by comparing the present value of cash flows expected to be received as of January 1, 2009, to the amortized cost basis of the debt securities. The discount rate used to calculate the present value of the cash flows expected to be collected was the rate for each respective debt security in effect before recognizing any OTTI. In addition, because the carrying amounts of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") are adjusted for the effects of realized and unrealized gains and losses on fixed maturity AFS securities, we recognized a true-up to our DAC, VOBA, DSI and DFEL balances for this cumulative effect adjustment.

The following summarizes the increase to the amortized cost of our fixed maturity AFS securities (in millions) as of January 1, 2009, resulting from the recognition of the cumulative effect adjustment:

Corporate bonds	$131
Residential collateralized mortgage obligations ("CMOs")	65
Collateralized debt obligations ("CDOs")	3
Total fixed maturity AFS securities	$199

The impact of this adoption to basic and diluted per share amounts for the three months ended September 30, 2009, was an increase of $0.23 and $0.22 per share, respectively. The impact of this adoption to both basic and diluted per share amounts for the nine months ended September 30, 2009, was an increase of $0.95 per share.

In addition, we have enhanced our financial statement presentation to present the total OTTI recognized in realized loss, with an offset for the amount of noncredit impairments recognized in accumulated OCI, on the face of our Consolidated Statements of Income (Loss). We disclose the amount of OTTI recognized in accumulated OCI in Note 12, and the enhanced disclosures related to OTTI are included in Note 5.

Investments – Equity Method and Joint Ventures Topic

In November 2008, the FASB amended the guidance in the Investments – Equity Method and Joint Ventures Topic of the FASB ASC to addresses the impact of recent amendments to the Business Combinations and Consolidations

Topics on the accounting for equity method investments. For a more detailed description of these amendments, see "EITF No. 07-5 – Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" in Note 2 of our 2008 Form 10-K. We adopted these amendments on January 1, 2009, prospectively for all investments accounted for under the equity method. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Subsequent Events Topic

In May 2009, the FASB updated the Subsequent Events Topic of the FASB ASC in order to establish standards of accounting for the disclosure of events that take place after the balance sheet date, but before the financial statements are issued. The effect of all subsequent events must be recognized in the financial statements that provide information about conditions that existed as of the balance sheet date. For those events that did not exist as of the balance sheet date, but arose after the balance sheet date and before the financial statements are issued, recognition is not required, but depending on the nature of the unrecognized subsequent event, disclosure of the event may be required in order to keep the financial statements from being misleading. In addition, entities must disclose in the financial statements the date through which subsequent events have been evaluated. We adopted these provisions, prospectively, as of the interim reporting period ended June 30, 2009, and have include the enhanced disclosures in Note 1. The adoption of these amendments to the Subsequent Event Topic did not have a material impact on our consolidated financial condition or results of operations.

Transfers and Servicing Topic

In February 2008, the FASB updated the Transfers and Servicing Topic of the FASB ASC regarding transfers of financial assets and the guidance for when a repurchase financing should be considered a linked transaction. For a more detailed description of these amendments see “FSP FAS No. 140-3 – Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” in Note 2 of our 2008 Form 10-K. We adopted this update effective January 1, 2009, and applied the guidance prospectively to initial transfers and repurchase financings executed after that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Future Adoption of New Accounting Standards

Compensation – Retirement Benefits Topic

In December 2008, the FASB amended the disclosure requirements for the Compensation – Retirement Benefits Topic of the FASB ASC, which will require enhanced disclosures regarding the plan assets of an employer’s defined benefit pension or other postretirement benefit plans. The new disclosures will include information regarding the investment allocation decisions made for plan assets, the fair value of each major category of plan assets disclosed separately for pension plans and other postretirement benefit plans and the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy as defined by the Fair Value Measurements and Disclosures Topic of the FASB ASC. In addition, disclosures will now be required for fair value measurements of plan assets using Level 3 inputs. These new disclosures are effective for fiscal years ending after December 15, 2009, and are not required for earlier periods presented for comparative purposes. We will include the disclosures required by the Compensation – Retirement Benefits Topic in the notes to our consolidated financial statements for the year ending December 31, 2009.

Fair Value Measurements and Disclosures Topic

In August 2009, the FASB issued ASU No. 2009-05, “Measuring Liabilities at Fair Value” (“ASU 2009-05”) which amends the Fair Value Measurements and Disclosures Topic of the FASB ASC to provide further guidance on the application of fair value measurements, due to the general lack of observable market information available for liabilities. These amendments to the Fair Value Measurements and Disclosures Topic identify valuation techniques which can be used to measure the fair value of a liability when a quoted price in an active market is not available. In addition, the amendments clarify that an entity is not required to include a separate input or adjustment to other inputs related to a restriction that prevents the transfer of the liability and clarifies when a quoted price for a liability would be considered a Level 1 input. ASU 2009-05 is effective for the reporting period ending December 31, 2009. Any revisions resulting from a change in a valuation technique, or its application, must be accounted for as a change in accounting estimate and the specified disclosure for a change in accounting estimate must be included in the notes to the financial statements. We will adopt these amendments to the Fair Value Measurements and Disclosures Topic in the fourth quarter of 2009, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

In September 2009, the FASB issued ASU No. 2009-12, “Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)” (“ASU 2009-12”), which amends the Fair Value Measurements and Disclosures Topic of the FASB ASC to permit the use of net asset value per share, without further adjustment, to estimate the fair value of investments in investment companies that do not have readily determinable fair values. The net asset value per share must be calculated in a manner consistent with the measurement principles of the Financial Services – Investment Companies Topic of the FASB ASC and can be used by investors in investments such as hedge funds, private equity funds, venture capital funds and real estate funds. If it is probable the investment will be sold for an amount other than net asset value, the investor would be required to estimate the fair value of the investment considering all of the rights and obligations of the investment and any other market available data. In addition, the amendments will require enhanced disclosure for the investments within the scope of this accounting update. The accounting guidance in ASU 2009-12 is effective for periods ending after December 15, 2009, and entities will be permitted to early adopt this accounting guidance without providing the enhanced disclosures. Upon the effective date of ASU 2009-12, the enhanced disclosures must be provided in the notes to the financial statements. We will adopt these amendments in the fourth quarter of 2009, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

SFAS No. 166 – Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (“SFAS 166”). In accordance with ASU 2009-01, the guidance in SFAS 166 will remain authoritative until it has been integrated into the FASB ASC. SFAS 166 will, among other things, eliminate the concept of a qualifying special-purpose entity (“SPE”) and remove the scope exception for a qualifying SPE from the Consolidations Topic of the FASB ASC. As a result, previously unconsolidated qualifying SPEs must be re-evaluated for consolidation by the sponsor or transferor. In addition, this standard amends the accounting guidance related to transfers of financial assets in order to address practice issues that have been highlighted by the events of the recent economic decline. SFAS 166 is effective as of the beginning of the annual reporting period that begins after November 15, 2009. The recognition and measurement provisions will be applied to transfers that occur on or after the effective date and all qualifying SPEs that exist on and after the effective date must be evaluated for consolidation. We will adopt the provisions of SFAS 166 effective January 1, 2010, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

SFAS No. 167 – Amendments to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). In accordance with ASU 2009-01, the guidance in SFAS 167 will remain authoritative until it has been integrated into the FASB ASC. SFAS 167 amends the consolidation guidance related to variable interest entities (“VIEs”) to require entities to perform an analysis of their respective variable interests to determine if a controlling financial interest exists in the VIE. The current quantitative analysis used under the Consolidations Topic of the FASB ASC will be eliminated and replaced with a qualitative approach that is focused on identifying the variable interest that has the power to direct the activities that most significantly impact the performance of the VIE and absorb losses or receive returns that could potentially be significant to the VIE. In addition, this new accounting standard will require an ongoing reassessment of the primary beneficiary of the VIE, rather than reassessing the primary beneficiary only upon the occurrence of certain events defined in the FASB ASC. SFAS 167 will be effective as of the beginning of the annual reporting period that begins after November 15, 2009, and requires that on the effective date all VIEs in which an entity has a variable interest be reconsidered for consolidation based on this amended accounting guidance. The investments we hold that we are evaluating are certain of our partnership investments in our alternative investment portfolio and the credit linked notes (“CLNs”). See Notes 4 and 5 for details on the CLNs. If we were required to consolidate our CLNs, it would also result in requiring us to record changes in fair value through the income statement with the initial mark-to-market recorded as a cumulative effect adjustment to retained earnings. We will adopt the provisions of SFAS 167 effective January 1, 2010, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

3. Acquisitions and Dispositions

Acquisitions

Newton County Loan & Savings, FSB (“NCLS”)

On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of NCLS, a federally regulated savings bank located in Indiana. We contributed $10 million to the capital of NCLS. We closed on our purchase of NCLS on January 15, 2009, which did not have a material impact on our consolidated financial condition or results of operations.

Dispositions

Discontinued Investment Management Operations

On August 18, 2009, we entered into a purchase and sale agreement with Macquarie Bank Limited (“MBL”), pursuant to which we agreed to sell to MBL all of the outstanding capital stock of Delaware Management Holdings, Inc. (“Delaware”), our subsidiary, which provides investment products and services to individuals and institutions.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company (“LNL”), our primary insurance subsidiary, will enter into investment advisory agreements with Delaware, pursuant to which Delaware will continue to manage the majority of the general account insurance assets of the subsidiaries. The investment advisory agreements will have ten-year terms, and we may terminate them without cause by paying an aggregate termination fee of up to $84 million in the event that all of the agreements with our subsidiaries are terminated that will decline on a pro rata basis over the ten-year term of the advisory agreements.

Accordingly, the assets and liabilities of this business have been reclassified as held-for-sale for all periods presented and are reported within other assets and other liabilities on our Consolidated Balance Sheets. The major classes of assets and liabilities held-for-sale (in millions) were as follows:

	As of September 30, 2009	As of December 31, 2008
Assets		
Cash and invested cash	$152	$165
Premiums and fees receivable	34	32
Goodwill	248	248
Other assets	84	77
Total assets held-for-sale	$518	$522
Liabilities		
Other liabilities	$162	$166
Total liabilities held-for-sale	$162	$166

We have reclassified the results of operations of Delaware into income (loss) from discontinued operations for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Discontinued Operations Before Disposal				
Revenues:				
Investment advisory fees – external	$55	$67	$146	$220
Investment advisory fees – internal	22	21	62	61
Other revenues and fees	23	22	66	75
Gain on sale of business	2	2	6	6
Total revenues	$102	$112	$280	$362

Income from discontinued operations before disposal, before federal income tax expense	$12	$10	$29	$57
Federal income tax expense	5	3	13	21
Income from discontinued operations before disposal	$7	$7	$16	$36

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We expect this transaction to close on or around December 31, 2009. The completion of the transaction contemplated by the purchase and sale agreement is subject to regulatory approvals and the satisfaction of other customary conditions, some of which are beyond our control, and no assurance can be given that such completion will occur. The transaction is expected to be neutral to earnings per share assuming reinvestment of net proceeds back into core insurance businesses. We expect a modest gain on disposal, which will be recorded as of the close of the transaction; however, the actual gain (loss) may differ from our expected result depending upon, among other things, the actual purchase price after closing adjustments.

Discontinued U.K. Operations

On June 15, 2009, we entered into a share purchase agreement with SLF of Canada UK Limited ("SLF") and Sun Life Assurance Company of Canada, as the guarantor, pursuant to which we agreed to sell to SLF all of the outstanding capital stock of Lincoln National (UK) plc ("Lincoln UK"), our subsidiary, which is focused primarily on providing life and retirement income products in the United Kingdom. This transaction closed on October 1, 2009, and we retained Lincoln UK's pension plan assets and liabilities.

Accordingly, the assets and liabilities of this business have been reclassified as held-for-sale for all periods presented and are reported within other assets and other liabilities on our Consolidated Balance Sheets. The major classes of assets and liabilities held-for-sale (in millions) were as follows:

	As of September 30, 2009	As of December 31, 2008
Assets		
Investments	$998	$831
Cash and invested cash	163	172
DAC and VOBA	562	534
Accrued investment income	21	18
Reinsurance recoverables	60	54
Other assets	45	44
Separate account assets	6,193	4,978
Total assets held-for-sale	$8,042	$6,631
Liabilities		
Future contract benefits	$896	$829
Other contract holder funds	287	277
Other liabilities	159	129
Separate account liabilities	6,193	4,978
Total liabilities held-for-sale	$7,535	$6,213

We have reclassified the results of operations of Lincoln UK into income (loss) from discontinued operations for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Discontinued Operations Before Disposal				
Revenues:				
Insurance premiums	$17	$19	$41	$64
Insurance fees	42	40	99	138
Net investment income	15	21	43	61
Realized gain (loss)	-	1	(1)	(7)
Total revenues	$74	$81	$182	$256
Income from discontinued operations before disposal, before federal income tax expense	$16	$20	$38	$58
Federal income tax expense	6	7	13	20
Income from discontinued operations before disposal	10	13	25	38
Disposal				
Gain (loss) on disposal, before federal income tax benefit	17	-	(220)	-
Federal income tax benefit	38	-	105	-
Gain (loss) on disposal	55	-	(115)	-
Income (loss) from discontinued operations	$65	$13	$(90)	$38

There will be a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement.

Discontinued Media Operations

During the fourth quarter of 2007, we entered into definitive agreements to sell our television broadcasting, Charlotte radio and sports programming businesses. These businesses were acquired as part of the Jefferson-Pilot merger on April 3, 2006. The sports programming sale closed on November 30, 2007, the Charlotte radio broadcasting sale closed on January 31, 2008, and the television broadcasting sale closed on March 31, 2008.

The results of operations of these businesses were reclassified into income (loss) from discontinued operations on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2008
Discontinued Operations Before Disposal		
Media revenues, net of agency commissions	$ -	$ 22
Income from discontinued operations before disposal, before federal income expense	$ -	$ 8
Federal income tax expense	-	3
Income from discontinued operations before disposal	-	5
Disposal		
Loss on disposal, before federal income tax expense (benefit)	-	(13)
Federal income tax expense (benefit)	1	(3)
Loss on disposal	(1)	(10)
Loss from discontinued operations	$ (1)	$ (5)

4. Variable Interest Entities

Our involvement with VIEs is primarily to obtain financing and to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. We have carefully analyzed each VIE to determine whether we are the primary beneficiary. Based on our analysis of the expected losses and residual returns of the VIEs in which we have a variable interest, we have concluded that there are no VIEs for which we are the primary beneficiary, and, as such, we have not consolidated the VIEs in our consolidated financial statements. However, for those VIEs in which we are not the primary beneficiary, but hold a variable interest, we recognize the fair value of our variable interest on our consolidated financial statements.

Information (in millions) included on our Consolidated Balance Sheets for those VIEs where we had significant variable interest and where we were a sponsor was as follows:

	As of September 30, 2009			As of December 31, 2008		
	Total Assets	Total Liabilities	Maximum Loss Exposure	Total Assets	Total Liabilities	Maximum Loss Exposure
Affiliated trust	$ 5	$ -	$ -	$ 5	$ -	$ -
Credit-linked notes	318	-	600	50	-	600

Affiliated Trust

We are the sponsor of an affiliated trust, Lincoln National Capital Trust VI, which was formed solely for the purpose of issuing trust preferred securities and lending the proceeds to us. We own the common securities of this trust, approximately a 3% ownership, and the only assets of the trust are the junior subordinated debentures issued by us. Our common stock investment in this trust was financed by the trust and is reported in other investments on our

Consolidated Balance Sheets. Distributions are paid by the trust to the preferred security holders on a quarterly basis and the principal obligations of the trust are irrevocably guaranteed by us. Upon liquidation of the trust, the holders of the preferred securities are entitled to a fixed amount per share plus accumulated and unpaid distributions. We reserve the right to redeem the preferred securities at a fixed price plus accumulated and unpaid distributions and defer the interest payments due on the subordinated debentures for up to 20 consecutive quarters, but not beyond the maturity date of the subordinated debenture.

Our common stock investment does not represent a significant variable interest in the trust, as we do not receive any distributions or absorb any losses from the trust. In addition, our guarantee of the principal obligations of the trust does not represent a variable interest, as we are guaranteeing our own performance. Therefore, we are not the primary beneficiary and do not consolidate the trust. Since our investment in the common stock of the trust was financed directly by the trust, we do not have any equity investment at risk, and, therefore, do not have exposure to loss from the trust.

Credit-Linked Notes

We invested in two CLNs where the note holders do not have voting rights or decision-making capabilities. The entities that issued the CLNs are financed by the note holders, and, as such, the note holders participate in the expected losses and residual returns of the entities. Because the note holders' investment does not permit them to make decisions about the entities' activities that would have a significant effect on the success of the entities, we have determined that these entities are VIEs. We are not the primary beneficiary of the VIEs as the multi-tiered class structure of the CLNs requires the subordinated classes of the investment pool to absorb credit losses prior to our class of notes. As a result, we will not absorb the majority of the expected losses and the coupon we receive on the CLNs limits our participation in the residual returns. For information regarding our exposure to loss in our CLNs, see "Credit-Linked Notes" in Note 5.

5. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB ASC, we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 16, which also includes additional disclosures regarding our fair value measurements.

The amortized cost, gross unrealized gains, losses and OTTI and fair value of AFS securities (in millions) were as follows:

	As of September 30, 2009				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed Maturity Securities					
Corporate bonds	$44,579	$2,612	$1,265	$78	$45,848
U.S. Government bonds	203	20	2	-	221
Foreign government bonds	473	31	11	-	493
Mortgage-backed securities ("MBS"):					
CMOs	6,237	306	342	172	6,029
Residential mortgage pass-through securities ("MPTS")	2,594	85	14	-	2,665
Commercial MBS ("CMBS")	2,592	52	391	-	2,253
Asset-backed securities ("ABS"):					
CDOs	191	5	47	9	140
CLNs	600	-	282	-	318
State and municipal bonds	1,425	54	15	-	1,464
Hybrid and redeemable preferred securities	1,548	21	334	-	1,235
Total fixed maturity securities	60,442	3,186	2,703	259	60,666
Equity Securities					
Banking securities	274	-	118	-	156
Insurance securities	43	1	-	-	44
Other financial services securities	23	11	7	-	27
Other securities	53	4	1	-	56
Total equity securities	393	16	126	-	283

Total AFS securities	$60,835	$3,202	$2,829	$259	$60,949

(1) This amount is comprised of the gross unrealized OTTI cumulative effect adjustment as discussed in Note 2 and the amount reflected on our Consolidated Statements of Income (Loss) during the first nine months of 2009 adjusted for other changes, including but not limited to, sales of fixed maturity AFS securities.

	As of December 31, 2008				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$39,773	$638	$4,463	$-	$35,948
U.S. Government bonds	204	42	-	-	246
Foreign government bonds	532	37	49	-	520
MBS:					
CMOs	6,918	174	780	-	6,312
MPTS	1,875	62	38	-	1,899
CMBS	2,535	9	625	-	1,919
ABS:					
CDOs	256	7	103	-	160
CLNs	600	-	550	-	50
State and municipal bonds	125	2	2	-	125
Hybrid and redeemable preferred securities	1,563	6	607	-	962
Total fixed maturity securities	54,381	977	7,217	-	48,141
Equity Securities					
Banking securities	274	-	146	-	128
Insurance securities	71	1	19	-	53
Other financial services securities	29	4	8	-	25
Other securities	54	4	10	-	48
Total equity securities	428	9	183	-	254
Total AFS securities	$54,809	$986	$7,400	$-	$48,395

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) were as follows:

	As of September 30, 2009	
	Amortized	Fair
	Cost	Value
Due in one year or less	$1,717	$1,734
Due after one year through five years	13,444	13,930
Due after five years through ten years	16,609	17,327
Due after ten years	16,458	16,270
Subtotal	48,228	49,261
MBS	11,423	10,947
CDOs	191	140
CLNs	600	318
Total fixed maturity AFS securities	$60,442	$60,666

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

The fair value and gross unrealized losses, including the portion of OTTI recognized in OCI, of AFS securities (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of September 30, 2009					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$1,905	$190	$7,399	$1,153	$9,304	$1,343
U.S. Government bonds	41	2	-	-	41	2
Foreign government bonds	24	-	50	11	74	11
MBS:						
CMOs	261	172	1,018	342	1,279	514
MPTS	223	2	103	12	326	14
CMBS	103	17	782	374	885	391
ABS:						
CDOs	9	7	117	49	126	56
CLNs	-	-	318	282	318	282
State and municipal bonds	285	7	60	8	345	15
Hybrid and redeemable preferred securities	128	45	912	289	1,040	334
Total fixed maturity securities	2,979	442	10,759	2,520	13,738	2,962
Equity Securities						
Banking securities	138	103	18	15	156	118
Insurance securities	6	-	-	-	6	-
Other financial services securities	8	7	-	-	8	7
Other securities	2	1	-	-	2	1
Total equity securities	154	111	18	15	172	126
Total AFS securities	$3,133	$553	$10,777	$2,535	$13,910	$3,088
Total number of securities in an unrealized loss position						1,680

	As of December 31, 2008					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed Maturity Securities						
Corporate bonds	$18,864	$2,341	$5,893	$2,122	$24,757	$4,463
U.S. Government bonds	3	-	-	-	3	-
Foreign government bonds	147	17	50	32	197	49
MBS:						
CMOs	853	299	720	481	1,573	780
MPTS	96	26	52	12	148	38
CMBS	1,133	175	498	450	1,631	625
ABS:						
CDOs	76	20	68	83	144	103
CLNs	-	-	50	550	50	550
State and municipal bonds	29	2	2	-	31	2
Hybrid and redeemable preferred securities	461	267	418	340	879	607
Total fixed maturity securities	21,662	3,147	7,751	4,070	29,413	7,217
Equity Securities						
Banking securities	128	146	-	-	128	146
Insurance securities	30	19	-	-	30	19
Other financial services securities	16	8	-	-	16	8
Other securities	23	9	2	1	25	10
Total equity securities	197	182	2	1	199	183
Total AFS securities	$21,859	$3,329	$7,753	$4,071	$29,612	$7,400
Total number of securities in an unrealized loss position						3,563

Each quarter we review the cash flows for the MBS to determine whether or not they are sufficient to provide for the recovery of our amortized cost. We revise our cash flow projections only for those securities that are at most risk for impairment based on current credit enhancement and trends in the underlying collateral performance. We use the process described below to evaluate the level of the expected cash flows.

When evaluating MBS and mortgage-related ABS, we consider a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance in the prior periods. We use this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alt-A or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, we then make assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation/depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on our tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for other-than-temporary impairment by comparing the expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is required.

Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, and the security was not purchased at a discount greater than the expected principal loss, then impairment is recognized.

We further monitor the cash flows of all of our AFS securities backed by pools on an ongoing basis. We also perform detailed analysis on all of our subprime, Alt-A, non-agency residential MBS and on a significant percentage of our AFS securities backed by pools of commercial mortgages. The detailed analysis includes revising projected cash flows by updating the cash flows for actual cash received and applying assumptions with respect to expected defaults, foreclosures and recoveries in the future. These revised projected cash flows are then compared to the amount of credit enhancement (subordination) in the structure to determine whether the amortized cost of the security is recoverable. If it is not recoverable, we record an impairment of the security.

We perform detailed analysis on the AFS securities backed by pools that are most at risk of impairment based on factors noted above. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2009		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$3,285	$2,267	$1,018
AFS securities backed by pools of commercial mortgages	1,347	930	417
Total	$4,632	$3,197	$1,435
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$2,985	$1,971	$1,014
AFS securities backed by pools of commercial mortgages	363	204	159
Total	$3,348	$2,175	$1,173

For the nine months ended September 30, 2009, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $499 million, pre-tax, and before associated amortization expense for DAC, VOBA, DSI and DFEL, of which $247 million was recognized in OCI and $252 million was recognized in net income (loss).

The fair value, gross unrealized losses, the portion of OTTI recognized in OCI (in millions) and number of AFS securities where the fair value had declined and remained below amortized cost by greater than 20% were as follows:

	As of September 30, 2009			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$277	$120	$-	71
Six months or greater, but less than nine months	301	114	89	69
Nine months or greater, but less than twelve months	989	509	14	169
Twelve months or greater	1,668	1,376	137	277
Total AFS securities	$3,235	$2,119	$240	586

As of December 31, 2008

	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$6,711	$3,497	$-	982
Six months or greater, but less than nine months	496	505	-	102
Nine months or greater, but less than twelve months	485	646	-	147
Twelve months or greater	173	869	-	90
Total AFS securities	$7,865	$5,517	$-	1,321

(1) We may reflect a security in more than one aging category based on various purchase dates.

As described more fully below, we regularly review our investment holdings for OTTIs. Based upon this review, the cause of the $4.3 billion decrease in our gross AFS securities unrealized losses for the nine months ended September 30, 2009, was attributable primarily to increased liquidity in several market segments and improved credit fundamentals (i.e., market improvement and narrowing credit spreads), partially offset by the cumulative adjustment resulting from the adoption of new accounting guidance related to the recognition of OTTI, which resulted in the $165 million increase in amortized cost in AFS securities as discussed in Note 2. We believe that the securities in an unrealized loss position as of September 30, 2009, were not other-than-temporarily impaired as we do not intend to sell these debt securities or it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, and we have the ability and intent to hold the equity securities for a period of time sufficient for recovery.

Changes in the amount of credit loss of OTTIs recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) on fixed maturity AFS securities were as follows:

	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2009
Balance as of beginning-of-period	$ 132	$ 31
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	32	127
Credit losses on securities for which an OTTI was previously recognized	64	100
Decreases attributable to:		
Securities sold	(6)	(6)
Amounts recognized in net income (loss)	-	(30)
Balance as of end-of-period	$ 222	$ 222

During the three and nine months ended September 30, 2009, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined that it is no longer likely that we would receive cash flows sufficient to recover the entire amortized cost basis of the security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates;
- Deterioration of fundamentals in the economy including, but not limited to, higher unemployment and lower housing prices and
- Deterioration of the rating of the security by a rating agency.

We recognize the OTTI attributed to the noncredit portion as a separate component in OCI referred to as unrealized OTTI on AFS securities. See Note 12 for details.

Details of the amount of credit loss of OTTIs recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) as of September 30, 2009, were as follows:

	Amortized Cost	Gross Unrealized OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$160	$72	$88	$58
MBS CMOs	383	172	211	164
	$543	$244	$299	$222

Realized Loss Related to Investments

The detail of the realized loss related to investments (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Fixed maturity AFS securities:				
Gross gains	$23	$19	$110	$44
Gross losses	(166)	(372)	(579)	(592)
Equity AFS securities:				
Gross gains	-	1	4	1
Gross losses	(8)	(25)	(16)	(32)
Gain (loss) on other investments	2	1	(58)	29
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	25	91	128	139
Total realized loss on investments, excluding trading securities	(124)	(285)	(411)	(411)
Loss on certain derivative instruments	(12)	(30)	(33)	(62)
Total realized loss on investments and certain derivative instruments, excluding trading securities	$(136)	$(315)	$(444)	$(473)

Details underlying write-downs taken as a result of OTTI (in millions) that was recognized in net income (loss) and included in realized loss on AFS securities above, and the portion of OTTI recognized in OCI (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$29	$ 205	$ 187	$ 331
MBS:				
CMOs	70	76	213	153
ABS:				
CDOs	10	-	39	1
Hybrid and redeemable preferred securities	17	1	18	1
Total fixed maturity securities	126	282	457	486
Equity securities:				
Insurance securities	-	1	-	1
Other financial services securities	8	24	10	24
Other securities	-	-	6	7
Total equity securities	8	25	16	32
Gross OTTI recognized in net income (loss)	134	307	473	518
Associated amortization expense of DAC, VOBA, DSI and DFEL	(54)	(70)	(154)	(123)
Net OTTI recognized in net income (loss), pre-tax	$80	$ 237	$ 319	$ 395
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$97	$ -	$ 338	$ -
Associated amortization expense of DAC, VOBA, DSI and DFEL	(29)	-	(79)	-
Net portion of OTTI recognized in OCI, pre-tax	$68	$ -	$ 259	$ -

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

For a debt security, if we intend to sell a security or it is more likely than not we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an OTTI has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income (Loss). If we do not intend to sell a debt security or it is not more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income (Loss), as this amount is deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in OCI to unrealized OTTI on AFS securities on our Consolidated Statements of Stockholders' Equity, as this amount is considered a noncredit (i.e., recoverable) impairment.

When assessing our intent to sell a debt security or if it is more likely than not we will be required to sell a debt security before recovery of its cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to reposition our security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The discount rate is the effective interest rate implicit in the underlying debt security. The effective interest rate is the original yield or the coupon if the debt security was previously impaired. See the discussion below for additional information on the methodology and significant inputs, by security type, which we use to determine the amount of a credit loss.

To determine the recovery period of a debt security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historic and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

In periods subsequent to the recognition of an OTTI, the AFS security is accounted for as if it had been purchased on the measurement date of the OTTI. Therefore, for the fixed maturity AFS security, the original discount or reduced premium is reflected in net investment income over the contractual term of the investment in a manner that produces a constant effective yield.

Determination of Credit Losses on Corporate Bonds

To determine recovery value of a corporate bond, we perform analysis related to the underlying issuer including, but not limited to, the following:

- Fundamentals of the issuer to determine what we would recover if they were to file bankruptcy versus the price at which the market is trading;
- Fundamentals of the industry in which the issuer operates;
- Earnings multiples for the given industry or sector of an industry that the underlying issuer operates within, divided by the outstanding debt to determine an expected recovery value of the security in the case of a liquidation;
- Expected cash flows of the issuer (e.g., whether the issuer has cash flows in excess of what is required to fund its operations);
- Expectations regarding defaults and recovery rates;
- Changes to the rating of the security by a rating agency; and
- Additional market information (e.g., if there has been a replacement of the corporate debt security).

As of September 30, 2009, we reviewed our corporate bond portfolio for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. Due to the number and variety of securities in an unrealized loss position, as well as the variety of factors for each individual corporate bond, which are used in the determination of the potential shortfall in contractual principal and interest, including, but not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers, we can not quantify the significant inputs used to measure the amounts of credit losses.

Determination of Credit Losses on MBS

To determine recovery value of a MBS, we perform analysis related to the underlying issuer including, but not limited to, the following:

- Discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover;
- Level of creditworthiness of the home equity loans that back a CMO, residential mortgages that back a MPTS or commercial mortgages that back a CMBS;
- Susceptibility to fair value fluctuations for changes in the interest rate environment;
- Susceptibility to reinvestment risks, in cases where market yields are lower than the securities' book yield earned;
- Susceptibility to reinvestment risks, in cases where market yields are higher than the book yields earned on a security and our expectations of sale of such a security; and
- Susceptibility to variability of prepayments.

As of September 30, 2009, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity if defaulted. For first lien loans, we assume a minimum of 30% loan severity with higher severity assumed for investor properties and further housing price depreciation.

Payables for Collateral on Investments

When we enter into collateralized financing transactions on our investments, a liability is recorded equal to the cash collateral received. This liability is included within payables for collateral on investments on our Consolidated Balance Sheets. Income and expenses associated with these transactions are recorded as investment income and investment expenses within net investment income on our Consolidated Statements of Income (Loss). Changes in payables for collateral on investments are reflected within cash flows from investing activities on our Consolidated Statements of Cash Flows.

The carrying values of the payables for collateral on investments (in millions) and the fair value of the related investments included on our Consolidated Balance Sheets consisted of the following:

	As of September 30, 2009		As of December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$714	$714	$2,809	$2,809
Securities pledged under securities lending agreements (2)	694	668	427	410
Securities pledged under reverse repurchase agreements (3)	344	364	470	496
Securities pledged for Treasury Asset-Backed Securities Loan Facility ("TALF") (4)	388	441	-	-
Securities pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	100	113	-	-
Total payables for collateral on investments	$2,240	$2,300	$3,706	$3,715

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that once exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.

(3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parities contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed

maturity AFS securities.

(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.

(5) Our pledged securities for FHLBI are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 85% to 95% of the fair value of the FHLBI securities. The cash received in these transactions is typically invested in cash and invested cash or fixed maturity AFS securities.

Increase (decrease) in payables for collateral on investments (in millions) included in the Consolidated Statements of Cash Flows consisted of the following:

	For the Nine Months Ended September 30,	
	2009	2008
Collateral payable held for derivative investments	$(2,095)	$797
Securities pledged under securities lending agreements	267	(192)
Securities pledged under reverse repurchase agreements	(126)	(200)
Securities pledged for TALF	388	-
Securities pledged for FHLBI	100	128
Total increase (decrease) in payables for collateral on investments	$(1,466)	$533

Investment Commitments

As of September 30, 2009, our investment commitments for fixed maturity AFS securities (primarily private placements), limited partnerships, real estate and mortgage loans on real estate were $797 million, which included $372 million of limited partnerships and $219 million of standby commitments to purchase real estate upon completion and leasing.

Credit-Linked Notes

As of September 30, 2009, and December 31, 2008, other contract holder funds on our Consolidated Balance Sheets included $600 million outstanding in funding agreements of LNL. LNL invested the proceeds of $600 million received for issuing two funding agreements in 2006 and 2007 into two separate CLNs originated by a third party company. The CLNs are included in fixed maturity AFS securities on our Consolidated Balance Sheets.

We earn a spread between the coupon received on the CLNs and the interest credited on the funding agreements. Our CLNs were created using a special purpose trust that combines highly rated assets with credit default swaps to produce a multi-class structured security. The high quality assets in these transactions are AAA-rated ABS secured by a pool of credit card receivables. The credit default swaps in the underlying portfolios are actively managed by the investment manager for the pool of underlying issuers in each of the transactions, as permitted in the CLN agreements. The investment manager, from time to time, has directed substitutions of corporate names in the reference portfolio. When substituting corporate names, the issuing special purpose trust transacts with a third party to sell credit protection on a new issuer, selected by the investment manager. The cost to substitute the corporate names is based on market conditions and the liquidity of the corporate names. This new issuer will replace the issuer the investment manager has identified to remove from the pool of issuers. The substitution of corporate issuers does not revise the CLN agreement. The subordination and the participation in credit losses may change as a result of the substitution. The amount of the change is dependent upon the relative risk of the issuers removed and replaced in the pool of issuers.

Consistent with other debt market instruments, we are exposed to credit losses within the structure of the CLNs, which could result in principal losses to our investments. However, we have attempted to protect our investments from credit losses through the multi-tiered class structure of the CLN, which requires the subordinated classes of the investment pool to absorb all of the credit losses up to the current attachment point. LNL owns the mezzanine tranche of these investments.

Our evaluation of the CLNs for OTTI involves projecting defaults in the underlying collateral pool, making assumptions regarding severity and then comparing losses on the underlying collateral pool to the amount of subordination. We apply current published industry data of projected default rates to the underlying collateral pool to estimate the expected future losses. If expected losses were to exceed the attachment point, we may recognize an OTTI on the CLN. To date, there has been one default in the underlying collateral pool of the $400 million CLN and two defaults in the underlying collateral pool of the $200 million CLN. There has been no event of default on the CLNs themselves. Based upon our analysis, the remaining subordination as represented by the attachment point should be sufficient to absorb future credit losses, subject to changing market conditions. Similar to other debt market instruments, our maximum principal loss is limited to our original investment of $600 million as of September 30, 2009.

During the nine months ended September 30, 2009, as in the general markets, spreads on these transactions have tightened, reducing unrealized losses. We had unrealized losses of $282 million on the $600 million in CLNs as of September 30, 2009, and $550 million on the $600 million in CLNs as of December 31, 2008. As described more fully in the realized loss related to investments section above, we regularly review our investment holdings for OTTIs. Based upon this review, we believe that these securities were not other-than-temporarily impaired as of September 30, 2009, and December 31, 2008. The following summarizes the fair value to amortized cost ratio of the CLNs:

	As of October 31, 2009	As of September 30, 2009	As of December 31, 2008
Fair value to amortized cost ratio	50%	53%	8%

The following summarizes information regarding our investments in these securities (dollars in millions) as of September 30, 2009:

	Amount and Date of Issuance	
	$400 December 2006	$200 April 2007
Amortized cost	$400	$200
Fair value	205	113
Original attachment point (subordination)	5.50 %	2.05 %
Current attachment point (subordination)	4.79 %	1.48 %
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BBB-	Ba3 (1)
Current rating of underlying collateral pool	Aa1-Caa2	Aaa-B3
Number of entities	124	98
Number of countries	19	23

(1) As of October 31, 2009, the current rating of this tranche was B2.

The following summarizes the exposure of the CLNs' underlying collateral by industry and rating as of September 30, 2009:

Industry	AAA	AA	A	BBB	BB	B	CC	Total
Financial intermediaries	0.4%	3.5%	7.1%	0.5%	0.0%	0.0%	0.0%	11.5%
Telecommunications	0.0%	0.0%	5.5%	4.5%	1.1%	0.0%	0.0%	11.1%
Oil and gas	0.0%	1.4%	1.7%	4.4%	0.0%	0.0%	0.0%	7.5%
Utilities	0.0%	0.0%	2.4%	1.8%	0.0%	0.0%	0.0%	4.2%
Chemicals and plastics	0.0%	0.0%	2.3%	1.6%	0.0%	0.0%	0.0%	3.9%
Property and casualty insurance	0.0%	0.0%	2.2%	1.1%	0.0%	0.0%	0.5%	3.8%
Drugs	0.3%	2.5%	0.9%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	0.6%	1.8%	1.1%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	3.0%	0.3%	0.0%	0.0%	0.0%	3.3%

Sovereign	0.0%	0.3%	1.6%	1.4%	0.0%	0.0%	0.0%	3.3%
Forest products	0.0%	0.0%	0.0%	1.6%	1.4%	0.0%	0.0%	3.0%
Other industry < 3% (28 industries)	0.9%	2.8%	15.2%	16.6%	3.9%	1.8%	0.0%	41.2%
Total by industry	1.6%	10.5%	42.5%	35.6%	7.5%	1.8%	0.5%	100.0%

Alternative Investments

Alternative investments, which consist primarily of investments in Limited Partnerships ("LPs"), are included in other investments on our Consolidated Balance Sheets.

We account for our investments in LPs using the equity method to determine the GAAP carrying value. The LPs where LNC is a participant generally report their assets at fair value. Since the assets of the LPs are measured at fair value and the values of the LPs' liabilities would generally approximate fair value according to the audited financial statements received from the partnerships, the GAAP carrying value on our consolidated balance sheet would approximate a fair value for our LP investments.

Recognition of alternative investment income is delayed due to the availability of the related financial statements, as our venture capital, real estate and oil and gas portfolios are generally on a three-month delay and our hedge funds are on a one-month delay and are generally obtained from the partnerships' general partners. In addition, the impact of audit adjustments related to completion of calendar-year financial statement audits of the investees are typically received after the filing of Form 10-K. Accordingly, our investment income from alternative investments for any calendar year period may not include the complete impact of the change in the underlying net assets for the partnership for that calendar year period.

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk and credit risk. We assess these risks by continually identifying and monitoring changes in interest rate exposure, foreign currency exposure, equity market exposure and credit exposure that may adversely impact expected future cash flows and by evaluating hedging opportunities. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swap agreements, interest rate futures, interest rate cap agreements, forward-starting interest rate swaps and treasury locks. Derivative instruments that are used as part of our foreign currency risk management strategy include foreign currency swaps, currency futures and foreign currency forwards. Call options based on our stock, call options based on the Standard & Poor's ("S&P") 500 Index® ("S&P 500"), total return swaps, variance swaps, equity collars, put options and equity futures are used as part of our equity market risk management strategy. We also use credit default swaps as part of our credit risk management strategy.

We evaluate and recognize our derivative instruments in accordance with the Derivatives and Hedging Topic of the FASB ASC. As of September 30, 2009, we had derivative instruments that were designated and qualifying as cash flow hedges, fair value hedges and the hedge of a net investment in a foreign subsidiary, as well as embedded derivatives that qualified as hedging instruments. In addition, we had embedded derivatives that did not qualify as hedging instruments, and derivative instruments that were economic hedges, but were not designed to meet the requirements to be accounted for as a hedge. See Note 1 of our 2008 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

Our derivative instruments are monitored by our Asset Liability Management Committee and our Equity Risk Management Committee as part of those committees' oversight of our derivative activities. Our committees are responsible for implementing various hedging strategies that are developed through their analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with living benefit guarantees offered in our variable annuity products, including the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit ("GWB") feature, the 4LATER® Advantage guaranteed income benefit ("GIB") feature and the i4LIFE® Advantage GIB feature. See "Guaranteed Living Benefit Embedded Derivative Reserves" below for further details.

See Note 16 for disclosures required by the Fair Value Measurements and Disclosures Topic of the FASB ASC.

We have derivative instruments with off-balance-sheet risks whose notional or contract amounts exceed the credit exposure. Outstanding derivative instruments with off-balance-sheet risks (in millions) were as follows:

	As of September 30, 2009					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value Gain	Asset Carrying or Fair Value Loss	(Liability) Carrying or Fair Value Gain	(Liability) Carrying or Fair Value Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	92	$649	$37	$(68)	$-	$-
Foreign currency swaps (1)	13	340	37	(19)	-	-
Forward-starting interest rate swaps (1)	1	75	-	-	-	-
Total cash flow hedges	106	1,064	74	(87)	-	-
Fair value hedges:						
Interest rate swap agreements (1)	1	375	92	-	-	-
Equity collars (1)	1	49	128	-	-	-
Total fair value hedges	2	424	220	-	-	-
Net investment in foreign subsidiary:						
Foreign currency forwards (1)	2	324	12	-	-	-
Embedded derivatives:						
Deferred compensation plans (2)	7	-	-	-	-	(418)
Indexed annuity contracts (3)	104,642	-	-	-	-	(391)
GLB embedded derivative reserves (3)	248,669	-	-	-	281	(1,382)
Reinsurance related embedded derivatives (4)	-	-	-	-	-	(39)
Total embedded derivatives	353,318	-	-	-	281	(2,230)
Total derivative instruments designated and qualifying as hedging instruments	353,428	1,812	306	(87)	281	(2,230)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	34	1,700	-	-	-	-
Interest rate futures (1)	31,555	4,163	-	-	-	-
Equity futures (1)	24,073	1,299	-	-	-	-
Interest rate swap agreements (1)	109	6,611	283	(399)	-	-
Foreign currency forwards (1)	17	1,016	12	(130)	-	-
Credit default swaps (2)	15	249	-	-	-	(78)
Total return swaps (1)	2	142	-	-	-	-
Put options (1)	120	4,259	1,022	-	-	-

Call options (based on LNC stock) (1)	1	9	-	-	-	-
Call options (based on S&P 500) (1)	557	3,342	174	-	-	-
Variance swaps (1)	36	26	101	(18)	-	-
Currency futures (1)	3,432	487	-	-	-	-
AFS securities embedded derivatives (1)	2	-	18	-	-	-
Total derivative instruments not designated and not qualifying as hedging instruments	59,953	23,303	1,610	(547)	-	(78)
Total derivative instruments	413,381	$25,115	$1,916	$(634)	$281	$(2,308)

(1) Reported in derivative investments on our Consolidated Balance Sheets.
(2) Reported in other liabilities on our Consolidated Balance Sheets.
(3) Reported in future contract benefits on our Consolidated Balance Sheets.
(4) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

The maturity of the notional amounts of derivative financial instruments (in millions) was as follows:

	Remaining Life as of September 30, 2009				
	Less Than 1 Year	1 – 5 Years	5 – 10 Years	10 – 30 Years	Total
Derivative Instruments Designated and Qualifying as Hedging Instruments					
Cash flow hedges:					
Interest rate swap agreements	$53	$90	$240	$266	$649
Foreign currency swaps	-	68	191	81	340
Forward-starting interest rate swaps	-	-	75	-	75
Total cash flow hedges	53	158	506	347	1,064
Fair value hedges:					
Interest rate swap agreements	-	-	-	375	375
Equity collars	49	-	-	-	49
Total fair value hedges	49	-	-	375	424
Net investment in foreign subsidiary:					
Foreign currency forwards	324	-	-	-	324
Total derivative instruments designated and qualifying as hedging instruments	426	158	506	722	1,812
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments					
Interest rate cap agreements	1,550	150	-	-	1,700
Interest rate futures	4,163	-	-	-	4,163
Equity futures	1,299	-	-	-	1,299
Interest rate swap agreements	477	1,635	1,494	3,005	6,611
Foreign currency forwards	1,016	-	-	-	1,016
Credit default swaps	20	40	189	-	249
Total return swaps	142	-	-	-	142
Put options	134	1,200	2,750	175	4,259
Call options (based on LNC stock)	9	-	-	-	9
Call options (based on S&P 500)	2,534	808	-	-	3,342
Variance swaps	-	3	23	-	26
Currency futures	487	-	-	-	487
Total derivative instruments not designated and not qualifying as hedging instruments	11,831	3,836	4,456	3,180	23,303
Total derivative instruments with notional amounts	$12,257	$3,994	$4,962	$3,902	$25,115

The change in our unrealized gain on derivative instruments in accumulated OCI (in millions) was as follows:

	For the Nine Months Ended September 30, 2009
Unrealized Gain on Derivative Instruments	
Balance as of beginning-of-year	$ 127
Other comprehensive income (loss):	
Unrealized holding losses arising during the period:	
Cash flow hedges:	
Interest rate swap agreements	23
Foreign currency swaps	(49)
Fair value hedges:	
Interest rate swap agreements	3
Equity collars	(28)
Net investment in foreign subsidiary	(61)
Change in DAC, VOBA, DSI and other contract holder funds	16
Income tax benefit	(16)
Less:	
Reclassification adjustment for gains included in net income:	
Cash flow hedges:	
Interest rate swap agreements (1)	2
Foreign currency swaps (1)	1
Fair value hedges:	
Interest rate swap agreements (2)	3
Income tax expense	(2)
Balance as of end-of-period	$ 11

(1) The OCI offset is reported within net investment income on our Consolidated Statements of Income (Loss).
(2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Income (Loss).

The settlement payments and mark-to-market adjustments on derivative instruments (in millions) recorded on our Consolidated Statements of Income (Loss) were as follows:

	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2009
Derivative Instruments Designated and Qualifying as Hedging Instruments		
Cash flow hedges:		
Interest rate swap agreements (1)	$ -	$ 2
Foreign currency swaps (1)	1	2
Total cash flow hedges	1	4
Fair value hedges:		
Interest rate swap agreements (2)	5	12
Embedded derivatives:		
Deferred compensation plans (3)	(17)	(42)
Indexed annuity contracts (4)	(54)	(4)
GLB embedded derivative reserves (4)	(28)	1,793
Reinsurance related embedded derivatives (4)	(85)	(70)
Total embedded derivatives	(184)	1,677
Total derivative instruments designated and qualifying as hedging instruments	(178)	1,693
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments		
Interest rate futures (4)	(3)	(586)
Equity futures (4)	(285)	(599)
Interest rate swap agreements (4)	93	(686)
Foreign currency forwards (1)	(36)	(119)
Credit default swaps (1)	-	1
Total return swaps (3)	19	28
Put options (4)	(116)	(526)
Call options (based on S&P 500) (4)	48	50
Variance swaps (4)	5	(78)
Currency futures (4)	9	7
AFS securities embedded derivatives (1)	1	4
Total derivative instruments not designated and not qualifying as hedging instruments	(265)	(2,504)
Total derivative instruments	$ (443)	$ (811)

(1) Reported in net investment income on our Consolidated Statements of Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Income (Loss).
(3) Reported in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).
(4) Reported in realized loss on our Consolidated Statements of Income (Loss).

Derivative Instruments Designated and Qualifying as Cash Flow Hedges

There was zero and $1 million in ineffective portions of cash flow hedges recognized through realized loss for the three and nine months ended September 30, 2009, respectively.

As of September 30, 2009, $6 million of the deferred net gains on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next twelve months. This reclassification is due primarily to the receipt of interest payments associated with variable rate securities and forecasted purchases, payment of interest on our senior debt, the receipt of interest payments associated with foreign currency securities and the periodic vesting of stock appreciation rights ("SARs").

For both the three and nine months ended September 30, 2009, there were no reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

Interest Rate Swap Agreements

We use a portion of our interest rate swap agreements to hedge the interest rate risk to our exposure to floating rate bond coupon payments, replicating a fixed rate bond. An interest rate swap is a contractual agreement to exchange payments at one or more times based on the actual or expected price level, performance or value of one or more underlying interest rates. We are required to pay the counterparty the stream of variable interest payments based on the coupon payments from the hedged bonds, and in turn, receive a fixed payment from the counterparty at a predetermined interest rate. The net receipts/payments from these interest rate swaps are recorded on our Consolidated Statements of Income (Loss) as specified in the table above. Gains or losses on interest rate swaps hedging our interest rate exposure on floating rate bond coupon payments are reclassified from accumulated OCI to net income as the related bond interest is accrued.

In addition, we use interest rate swap agreements to hedge our exposure to fixed rate bond coupon payments and the change in underlying asset values as interest rates fluctuate. The net receipts/payments from these interest rate swaps are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

As of September 30, 2009, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 2037.

Foreign Currency Swaps

We use foreign currency swaps, which are traded over-the-counter, to hedge some of the foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange the currencies of two different countries at a specified rate of exchange in the future. Gains or losses on foreign currency swaps hedging foreign exchange risk exposure on foreign currency bond coupon payments are reclassified from accumulated OCI to net income as the related bond interest is accrued.

As of September 30, 2009, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was July 2022.

Forward-Starting Interest Rate Swaps

We use forward-starting interest rate swaps to hedge our exposure to interest rate fluctuations related to the forecasted purchase of assets for certain investment portfolios. The gains or losses resulting from the swap agreements are recorded in OCI. The gains or losses are reclassified from accumulated OCI to earnings over the life of the assets once the assets are purchased.

As of September 30, 2009, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was September 2017.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

There were no ineffective portions of fair value hedges for both the three and nine months ended September 30, 2009. We recognized $1 million as a component of realized investment loss for our equity collars for both the three and nine months ended September 30, 2009.

Interest Rate Swap Agreements

We use a portion of our interest rate swap agreements to hedge the risk of paying a higher fixed rate of interest on junior subordinated debentures issued to affiliated trusts and on senior debt than would be paid on long-term debt based on current interest rates in the marketplace. We are required to pay the counterparty a stream of variable interest payments based on the referenced index, and in turn, we receive a fixed payment from the counterparty at a predetermined interest rate. The net receipts/payments from these interest rate swaps are recorded as an adjustment to the interest expense for the debt being hedged. The changes in fair value of the interest rate swap are recorded on our Consolidated Statements of Income (Loss) as specified in the table above in the period of change, along with the offsetting changes in fair value of the debt being hedged.

Equity Collars

We used an equity collar on four million shares of our Bank of America ("BOA") stock holdings. The equity collar is structured such that we purchased a put option on the BOA stock and simultaneously sold a call option with the identical maturity date as the put option. This structure effectively protects us from a price decline in the stock while allowing us to participate in some of the upside if the BOA stock appreciates over the time of the transaction. With the equity collar in place, we are able to pledge the BOA stock as collateral, which then allows us to advance a substantial portion of the stock's value, effectively monetizing the stock for liquidity purposes. This variable forward contract is scheduled to settle in September 2010, at which time we will be required to deliver shares or cash. If we choose to settle in shares, the number of shares to be delivered will be determined based on the volume-weighted average price of BOA common stock over a period of 10 trading days prior to settlement. The change in fair value of the equity collar is recorded on our Consolidated Statements of Income (Loss) as specified in the table above in the period of change, along with the offsetting changes (when applicable) in fair value of the stock being hedged.

Derivative Instruments Designated and Qualifying as a Net Investment in Foreign Subsidiary

We use foreign currency forwards to hedge a portion of our net investment in our foreign subsidiary, Lincoln UK. The foreign currency forwards obligate us to deliver a specified amount of currency at a future date at a specified exchange rate. The foreign currency forwards outstanding as of December 31, 2008, were terminated on February 5, 2009. The gain on the termination of the foreign currency forward of $38 million was recorded in OCI. During 2009, we entered into foreign currency forward to hedge a significant portion of the foreign currency fluctuations associated with the expected proceeds from the sale of Lincoln UK. The loss upon the termination of these foreign currency contracts of $12 million was also recorded in OCI.

Embedded Derivative Instruments Designated and Qualifying as Hedging Instruments

Deferred Compensation Plans

We have certain deferred compensation plans that have embedded derivative instruments. The liability related to these plans varies based on the investment options selected by the participants. The liability related to certain investment options selected by the participants is marked-to-market through net income on our Consolidated Statements of Income (Loss) as specified in the table above.

Indexed Annuity Contracts

We distribute indexed annuity contracts that permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. This feature represents an embedded derivative under the Derivatives and Hedging Topic of the FASB ASC. Contract holders may elect to re-balance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, subject to minimum guarantees. We purchase S&P 500 call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity, both of which are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Guaranteed Living Benefit Embedded Derivative Reserves

We have certain guaranteed living benefit ("GLB") variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB and 4LATER® features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. The change in embedded derivative reserves flows through our Consolidated Statements of Income (Loss) as specified in the table above. As of September 30, 2009, we had $21.5 billion of account values that were attributable to variable annuities with a GWB feature and $8.8 billion of account values that were attributable to variable annuities with a GIB feature.

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with GWB and GIB features. The hedging strategy is designed such that changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities move in the opposite direction of changes in embedded derivative reserves of the GWB and GIB caused by those same factors. As part of our current hedging program, equity markets, interest rates and volatility in market conditions are monitored on a daily basis. We re-balance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these hedge positions may not be totally effective in offsetting changes in the embedded derivative reserve due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets and interest rates, market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments and our ability to purchase hedging instruments at prices consistent with our desired risk and return trade off.

Reinsurance Related Embedded Derivative

We have certain modified coinsurance ("Modco") and coinsurance with funds withheld ("CFW") reinsurance arrangements with embedded derivatives related to the withheld assets of the related funds. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance arrangements. Changes in the estimated fair value of these derivatives as they occur are recorded on our Consolidated Statements of Income (Loss) as specified in the table above. Offsetting these amounts are corresponding changes in the estimated fair value of trading securities in portfolios that support these arrangements. During the first quarter of 2009, the portion of the embedded derivative liability related to the funds withheld reinsurance agreement on our disability income business was released due to the rescission of the underlying reinsurance agreement. See Note 11 for additional details.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

We use various other derivative instruments for risk management and income generation purposes that either do not qualify for hedge accounting treatment or have not currently been designated by us for hedge accounting treatment in accordance with the Derivatives and Hedging Topic of the FASB ASC.

Interest Rate Cap Agreements

Interest rate cap agreements entitle us to receive quarterly payments from the counterparties on specified future reset dates, contingent on future interest rates. For each cap, the amount of such quarterly payments, if any, is determined by the excess of a market interest rate over a specified cap rate, multiplied by the notional amount divided by four. The purpose of our interest rate cap agreement program is to provide a level of protection from the effect of rising interest rates for our annuity business, within our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. The interest rate cap agreements provide an economic hedge of the annuity line of business. However, the interest rate cap agreements do not qualify for hedge accounting treatment.

Interest Rate Futures and Equity Futures

We use interest rate futures and equity futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price. Cash settlements on the change in market value of financial futures contracts, along with the resulting gains or losses, are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Interest Rate Swap Agreements

We use interest rate swap agreements to hedge the liability exposure on certain options in variable annuity products. The change in market value and periodic cash settlements are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Foreign Currency Forwards

We use foreign currency forwards to hedge dividends received from our U.K.-based subsidiary, Lincoln UK. The foreign currency forwards obligate us to deliver a specified amount of currency at a future date and a specified exchange rate.

Credit Default Swaps

We buy credit default swaps to hedge against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows us to put the bond back to the counterparty at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring. Our credit default swaps are not currently qualified for hedge accounting treatment, as amounts are insignificant.

We also sell credit default swaps to offer credit protection to investors. The credit default swaps hedge the investor against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows the investor to put the bond back to us at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

Information related to our open credit default swap liabilities for which we are the seller (in millions) as of September 30, 2009, was as follows:

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Counter-party	Fair Value (1)	Maximum Potential Payout
3/20/2010	(2)	(4)	A2/A	$ -	$ 10
6/20/2010	(2)	(4)	A1/A	-	10
12/20/2012	(3)	(4)	Aa2/A+	-	10
12/20/2012	(3)	(4)	Aa2/A+	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2016	(3)	(4)	A2/A(5)	13	29
12/20/2016	(3)	(4)	A2/A(5)	8	24
12/20/2016	(3)	(4)	A2/A(5)	10	24
3/20/2017	(3)	(4)	A2/A(5)	8	22
3/20/2017	(3)	(4)	A2/A(5)	12	15
3/20/2017	(3)	(4)	A2/A(5)	6	18
3/20/2017	(3)	(4)	A2/A(5)	12	17
3/20/2017	(3)	(4)	A2/A(5)	4	23
3/20/2017	(3)	(4)	A2/A(5)	5	17
				$ 78	$ 249

(1) Broker quotes are used to determine the market value of credit default swaps.
(2) Credit default swap was entered into in order to generate income by providing protection on a highly rated basket of securities in return for a quarterly payment.
(3) Credit default swap was entered into in order to generate income by providing default protection in return for a quarterly payment.
(4) Seller does not have the right to demand indemnification/compensation from third parties in case of a loss (payment) on the contract.
(5) These credit default swaps were sold to a counter party of the issuing special purpose trust as discussed in the "Credit-Linked Notes" section in Note 5.

Details underlying the associated collateral of our open credit default swaps for which we are the seller as of September 30, 2009, if credit risk related contingent features were triggered (in millions) were as follows:

Maximum potential payout	$249
Less:	
Counterparty thresholds	30
Maximum collateral potentially required to post	$219

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. In the event that these netting agreements were not in place, fair values of the associated investments, counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash would have required that we post approximately $70 million as of September 30, 2009. Netting of these contracts allowed us to post approximately $62 million.

Total Return Swaps

We use total return swaps to hedge a portion of the liability related to our deferred compensation plans. We receive the total return on a portfolio of indexes and pay a floating rate of interest. Cash settlements on the change in market value of the total return swaps along with the resulting gains or losses recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Put Options

We use put options to hedge the liability exposure on certain options in variable annuity products. Put options are contracts that require counterparties to pay us at a specified future date the amount, if any, by which a specified equity index is less than the strike rate stated in the agreement, applied to a notional amount. The change in market value of the put options along with the resulting gains or losses on terminations and expirations are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Call Options (Based on LNC Stock)

We use call options on our stock to hedge the expected increase in liabilities arising from SARs granted on our stock. Call options hedging vested SARs are not eligible for hedge accounting treatment. The mark-to-market changes are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Call Options (Based on S&P 500)

We use indexed annuity contracts to permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to re-balance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, subject to minimum guarantees. We purchase call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity, both of which are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Variance Swaps

We use variance swaps to hedge the liability exposure on certain options in variable annuity products. Variance swaps are contracts entered into at no cost and whose payoff is the difference between the realized variance of an underlying index and the fixed variance rate determined as of inception. The change in market value and resulting gains and losses on terminations and expirations are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Currency Futures

We use currency futures to hedge foreign exchange risk associated with certain options in variable annuity products. Currency futures exchange one currency for another at a specified date in the future at a specified exchange rate. These contracts do not qualify for hedge accounting treatment; therefore, all cash settlements along with the resulting gains or losses are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

AFS Securities Embedded Derivatives

We own various debt securities that either contain call options to exchange the debt security for other specified securities of the borrower, usually common stock, or contain call options to receive the return on equity-like indexes. These embedded derivatives have not been qualified for hedge accounting treatment; therefore, the change in fair value of the embedded derivatives flows through our Consolidated Statements of Income (Loss) as specified in the table above.

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2009, the nonperformance risk adjustment was $10 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2009, the exposure was $426 million.

The amounts recognized (in millions) by S&P credit rating of counterparty as of September 30, 2009, for which we had the right to reclaim cash collateral or were obligated to return cash collateral, were as follows:

S&P Credit Rating of Counterparty	Collateral Posted by Counterparty (Held by LNC)		Collateral Posted by LNC (Held by Counterparty)	
AAA	$	9	$	-
AA		115		-
AA-		187		-
A+		275		(16)
A		288		(88)
	$	874	$	(104)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). Because the pre-tax income of $62 million and $121 million resulted in a tax benefit of $19 million and $8 million for the three months ended September 30, 2009 and 2008, respectively, the effective tax rate was not meaningful. The effective tax rate for the nine months ended September 30, 2009 and 2008 was 22% and 25%, respectively. The effective tax rate on pre-tax income (loss) from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% for the nine months ended September 30, 2009 and 2008 were the result of certain tax preferred investment income, separate account dividends-received deduction ("DRD"), foreign tax credits and other tax preference items and the impact of the goodwill impairment related to our Retirement Solutions – Annuities reporting segment, which did not have a corresponding tax effect.

Federal income tax benefit for the first nine months of 2009 included an increase of $60 million related to favorable adjustments from the 2008 tax return, filed during 2009, relating primarily to the separate account DRD, foreign tax credits and other tax preference items. Federal income tax expense for the first nine months of 2008 included a reduction of $34 million related to favorable adjustments from the 2007 tax return, filed during 2008, relating primarily to the separate account DRD, foreign tax credits and other tax preference items.

The application of GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary, to reduce our deferred tax asset to an amount that is more likely than not to be realizable. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including: the nature and character of the deferred tax assets and liabilities; taxable income in prior carryback years; future reversals of temporary differences; the length of time carryovers can be utilized; and any tax planning strategies we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, including our capital loss deferred tax asset, will be realized.

As of September 30, 2009, there have been no material changes to the balance of unrecognized tax benefits reported as of December 31, 2008. We anticipate a change to our unrecognized tax benefits within the next 12 months in the range of $0 million to $53 million.

We recognize interest and penalties, if any, accrued related to unrecognized tax benefits as a component of tax expense.

8. Goodwill

The changes in the carrying amount of goodwill (in millions) by reportable segment were as follows:

	For the Nine Months Ended September 30, 2009			
	Balance As of Beginning-of-Year	Purchase Accounting Adjust-ments	Impair-ment	Balance As of End-of-Period
Retirement Solutions:				
Annuities	$1,040	$-	$(600)	$440
Defined Contribution	20	-	-	20
Insurance Solutions:				
Life Insurance	2,188	-	-	2,188
Group Protection	274	-	-	274
Other Operations	174	1	(1)	174
Total goodwill	$3,696	$1	$(601)	$3,096

We performed a Step 1 goodwill impairment analysis on all of our reporting units as of March 31, 2009. The Step 1 analysis for our Insurance Solutions – Life Insurance and Retirement Solutions – Annuities reporting units utilized primarily a discounted cash flow valuation technique. In determining the estimated fair value of these reporting units, we incorporated consideration of discounted cash flow calculations, the level of our own share price and assumptions that market participants would make in valuing these reporting units. Our fair value estimations were based primarily on an in-depth analysis of projected future cash flows and relevant discount rates, which considered market participant inputs ("income approach"). The discounted cash flow analysis required us to make judgments about revenues, earnings projections, capital market assumptions and discount rates. For our other reporting units, we used other available information including market data obtained through strategic reviews and other analysis to support our Step 1 conclusions.

All of our reporting units passed the Step 1 analysis, except for our Retirement Solutions – Annuities reporting unit, which required a Step 2 analysis to be completed. In our Step 2 analysis, we estimated the implied fair value of the reporting unit's goodwill as determined by allocating the reporting unit's fair value determined in Step 1 to all of its net assets (recognized and unrecognized) as if the reporting unit had been acquired in a business combination as of the date of the impairment test.

Based upon our Step 2 analysis, we recorded goodwill impairment for the Retirement Solutions – Annuities reporting unit in the first quarter of 2009, which was attributable primarily to higher discount rates driven by higher debt costs and equity market volatility, deterioration in sales and declines in equity markets. There were no indicators of impairment as of September 30, 2009, due primarily to the continued improvement in the equity markets and lower discount rates.

For our acquisition of NCLS, we are in the process of finalizing the fair value of the assets acquired and liabilities assumed as of the acquisition date. As such, these values are subject to change. During the first nine months of 2009, we impaired the estimated goodwill that arose from the acquisition after giving consideration to the expected financial performance and other relevant factors of this business.

9. Guaranteed Benefit Features

We issue variable annuity contracts through our separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). We also issue variable annuity and life contracts through separate accounts that include various types of guaranteed death benefit ("GDB"), GWB and GIB features. The GDB features include those where we contractually guarantee to the contract holder either: return of no less than total deposits made to the contract less any partial withdrawals ("return of net deposits"); total deposits made to the contract less any partial withdrawals plus a minimum return ("minimum return"); or the highest contract value on any contract anniversary date through age 80 minus any payments or withdrawals following the contract anniversary ("anniversary contract value").

As discussed in Note 6, certain features of these guarantees are accounted for as embedded derivative reserves, whereas other guarantees are accounted for as benefit reserves. Other guarantees contain characteristics of both and are accounted for under an approach that calculates the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for living benefits in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in the value of the associated reserves. The net impact of these changes is reported as a component of realized loss on our Consolidated Statements of Income (Loss) in a category referred to as GLBs.

The "market consistent scenarios" used in the determination of the fair value of the GWB liability are similar to those used by an investment bank to value derivatives for which the pricing is not transparent and the aftermarket is nonexistent or illiquid. In our calculation, risk-neutral Monte-Carlo simulations resulting in over 10 million scenarios are utilized to value the entire block of guarantees. The market consistent scenario assumptions, as of each valuation date, are those we view to be appropriate for a hypothetical market participant. The market consistent inputs include assumptions for the capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.), policyholder behavior (e.g., policy lapse, benefit utilization, mortality, etc.), risk margins, administrative expenses and a margin for profit. We believe these assumptions are consistent with those that would be used by a market participant; however, as the related markets develop we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value.

Information on the GDB features outstanding (dollars in millions) was as follows (our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	As of September 30, 2009	As of December 31, 2008
Return of Net Deposits		
Total account value	$42,415	$33,907
Net amount at risk (1)	2,446	6,337
Average attained age of contract holders	57 years	56 years
Minimum Return		
Total account value	$204	$191
Net amount at risk (1)	72	109
Average attained age of contract holders	69 years	68 years
Guaranteed minimum return	5 %	5 %
Anniversary Contract Value		
Total account value	$20,605	$16,950
Net amount at risk (1)	4,764	8,402
Average attained age of contract holders	65 years	65 years

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing September 30, 2009, to December 31, 2008, was attributable primarily to the rise in equity markets and associated increase in the account values.

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The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDB (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Nine Months Ended September 30,	
	2009	2008
Balance as of beginning-of-year	$277	$38
Change in reserves	(39)	87
Benefits paid	(150)	(22)
Balance as of end-of-period	$88	$103

Account balances of variable annuity contracts with guarantees (in millions) were invested in separate account investment options as follows:

	As of September 30, 2009	As of December 31, 2008
Asset Type		
Domestic equity	$31,318	$24,878
International equity	11,737	9,204
Bonds	9,041	6,701
Money market	5,958	5,802
Total	$58,054	$46,585
Percent of total variable annuity separate account values	97%	99%

Future contract benefits also include reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 39% of permanent life insurance in force as of September 30, 2009, and approximately 58% and 66% of sales for these products for the three and nine months ended September 30, 2009.

10. Long-Term Debt

Changes in long-term debt, excluding current portion (in millions), were as follows:

	For the Nine Months Ended September 30, 2009
Balance as of beginning-of-year	$4,731
Early extinguishment of the following capital securities:	
Portion of 7%, due 2066 (1)	(78)
Portion of 6.05%, due 2067 (2)	(9)
Senior notes issued (3)	495
Maturity of LIBOR + 11 bps notes, due 2009	(500)
Reclassification to short-term debt	250
Change in fair value hedge	(104)
Accretion (amortization) of discounts (premiums), net	4
Balance as of end-of-period	$4,789

(1) The results of the extinguishment of debt were favorable by a ratio of 25 cents to one dollar.
(2) The results of the extinguishment of debt were favorable by a ratio of 23 cents to one dollar.
(3) On June 22, 2009, we issued 8.75% fixed rate senior notes due 2019. We have the option to repurchase the outstanding notes by paying the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the make-whole amount, plus in each case any accrued and unpaid interest as of the date of redemption. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments on the senior notes, discounted to the date of redemption on a semi-annual basis, at a rate equal to the sum of the applicable treasury rate (as defined in the senior notes) plus 50 basis points.

Details underlying the recognition of a gain on the extinguishment of debt (in millions) reported within interest and debt expense on our Consolidated Statements of Income (Loss) were as follows:

	For the Three Months Ended March 31, 2009
Principal balance outstanding prior to payoff	$87
Unamortized debt issuance costs and discounts prior to payoff	(1)
Amount paid to retire	(22)
Gain on extinguishment of debt, pre-tax	$64

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11. Contingencies and Commitments

Regulatory and Litigation Matters

In the ordinary course of its business, LNC and its subsidiaries are involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. After consultation with legal counsel and a review of available facts, it is management’s opinion that these proceedings, after consideration of any reserves and rights to indemnification, ultimately will be resolved without materially affecting the consolidated financial position of LNC. However, given the large and indeterminate amounts sought in certain of these proceedings and the inherent difficulty in predicting the outcome of such legal proceedings, including the proceeding described below, it is possible that an adverse outcome in certain matters could be material to our operating results for any particular reporting period.

Transamerica Investment Management, LLC and Transamerica Investments Services, Inc. v. Delaware Management Holdings, Inc. (dba Delaware Investments), Delaware Investment Advisers and certain individuals, was filed in the San Francisco County Superior Court on April 28, 2005. The plaintiffs are seeking substantial compensatory and punitive damages. The complaint alleges breach of fiduciary duty, breach of duty of loyalty, breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition, interference with prospective economic advantage, conversion, unjust enrichment and conspiracy, in connection with Delaware Investment Advisers’ hiring of a portfolio management team from the plaintiffs. We and the individual defendants dispute the allegations and are vigorously defending these actions. The pending sale of Delaware has no impact on this matter.

Contingencies

Rescission of Indemnity Reinsurance for Disability Income Business

Included in the business sold to Swiss Re through indemnity reinsurance in 2001 was disability income business. In response to the rescission award of a panel of arbitrators on January 24, 2009, of the underlying reinsurance agreement with Swiss Re, we recorded an adjustment to write down our reinsurance recoverable and the corresponding funds withheld liability, and we released the embedded derivative liability related to the funds withheld nature of the reinsurance agreement, as discussed below. Although these adjustments were based on our best estimate of the impact of the rescission, we may record further adjustments depending on the outcome of our review of the adequacy of the reserves, which we expect to complete during the fourth quarter of 2009. Any resulting adjustment may have a material impact on our results for the quarter in which the adjustment is recorded. The rescission resulted in our being responsible for paying claims on the business and maintaining sufficient reserves to support the liabilities.

For the three months ended March 31, 2009, an unfavorable adjustment of $64 million, after-tax, was reflected in segment income from operations within Other Operations, comprised of increases of $78 million to benefits, $15 million to interest credited and $5 million to underwriting, acquisition, insurance and other expenses, partially offset by a tax benefit of $34 million. In addition, during the first three months of 2009, the embedded derivative liability release discussed above increased net income by approximately $31 million. The combined adjustments reduced net income by approximately $33 million, after-tax. In addition, as a result of the rescission we reduced our reinsurance recoverables by approximately $900 million related to the reserves for the disability income business and a reduction of approximately $840 million in the funds withheld liability.

12. Shares and Stockholders' Equity

The changes in our preferred and common stock (number of shares) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Series A Preferred Stock				
Balance as of beginning-of-period	11,557	11,662	11,565	11,960
Conversion into common stock	(10)	(100)	(18)	(398)
Balance as of end-of-period	11,547	11,562	11,547	11,562
Series B Preferred Stock				
Balance as of beginning-of-period	-	-	-	-
Stock issued	950,000	-	950,000	-
Balance as of end-of-period	950,000	-	950,000	-
Common Stock				
Balance as of beginning-of-period	302,093,017	256,801,622	255,869,859	264,233,303
Stock issued	-	-	46,000,000	-
Conversion of Series A preferred stock	160	1,600	288	6,368
Stock compensation/issued for benefit plans	12,070	114,919	284,637	861,220
Retirement/cancellation of shares	(31,378)	(1,076,508)	(80,915)	(9,259,258)
Balance as of end-of-period	302,073,869	255,841,633	302,073,869	255,841,633
Common stock as of end-of-period:				
Assuming conversion of preferred stock	302,258,621	256,026,625	302,258,621	256,026,625
Diluted basis	311,845,511	256,908,832	311,845,511	256,908,832

Our common and Series A preferred stocks are without par value.

Common Stock Issued

On June 22, 2009, we closed on the issuance and sale of 40,000,000 shares of common stock and on June 25, 2009, we closed on the issuance and sale of 6,000,000 shares of common stock, both at a price of $15.00 per share.

Series B Preferred Stock Issued

On July 10, 2009, in connection with the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"), established as part of the Emergency Economic Stabilization Act of 2008 ("EESA"), we issued and sold to the U.S. Treasury 950,000 shares of Series B preferred stock together with a related warrant to purchase up to 13,049,451 shares of our common stock at an exercise price of $10.92 per share, in accordance with the terms of the TARP CPP, for an aggregate purchase price of $950 million. The Series B preferred stock has no maturity date and ranks senior to our common stock. The Series B preferred stock is non-voting. Holders of this Series B preferred stock are entitled to a cumulative cash dividend at the annual rate per share of 5% of the liquidation preference, $1,000 per share, or $48 million annually, for the first five years from issuance. After July 10, 2014, if the preferred shares are still outstanding, the annual dividend rate will increase to 9% per year. The warrant will expire on July 10, 2019.

As required under the TARP CPP, dividend payments on, and repurchases of, the Company's outstanding preferred and common stock are subject to certain restrictions (unless the U.S. Treasury consents). Additionally, any increase in the quarterly common stock dividend for the next three years will require the consent of the U.S. Government while our obligations under the CPP remain outstanding.

Upon issuance, the fair values of the Series B preferred stock and the associated warrant were computed as if the instruments were issued on a stand alone basis. The fair value of the Series B preferred stock was estimated based on a five-year holding period and cash flows discounted at a rate of 10%, resulting in a fair value estimate of approximately $777 million. We used a binomial lattice model to estimate the fair value of the warrant, resulting in a stand alone fair value of approximately $152 million. The relative fair value of each security to the total combined fair value of both securities was 83.6% for the preferred stock and 16.4% for the common stock warrant. The most significant and unobservable assumption in this valuation was our share price volatility. We used a long-term realized volatility of our stock of 73.17%.

The individual fair values were then used to record the Series B preferred stock and associated warrant on a relative fair value basis of $794 million and $156 million, respectively. The warrant was recorded to common stock. The Series B preferred stock amount was recorded at the liquidation value of $1,000 per share or $950 million, net of discount of $156 million. The discount is being amortized over a five-year period from the date of issuance, using the effective yield method and is recorded as a direct reduction to retained earnings and deducted from income (loss) available to common stockholders in the calculation of earnings (loss) per share (“EPS”). The accretion of discount totaled $6 million for the three months ended September 30, 2009.

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted earnings (loss) per common share was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted-average shares, as used in basic calculation	301,803,107	255,865,067	272,651,819	258,192,178
Shares to cover exercise of CPP warrant	11,786,601	-	3,928,867	-
Shares to cover conversion of preferred stock	184,787	185,672	184,931	187,101
Shares to cover non-vested stock	568,933	315,939	525,534	276,132
Average stock options outstanding during the period	577,045	6,241,386	295,438	8,478,357
Assumed acquisition of shares with assumed proceeds from exercising CPP warrant	(5,909,851)	-	(1,969,950)	-
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the year)	(386,354)	(6,240,810)	(207,216)	(8,392,562)
Shares repurchaseable from measured but unrecognized stock option expense	(160,867)	(2,279)	(55,922)	(57,531)
Average deferred compensation shares	1,576,482	1,280,279	1,563,073	1,278,454
Weighted-average shares, as used in diluted calculation (1)	310,039,883	257,645,254	276,916,574	259,962,129

(1) As a result of a loss from continuing operations for the nine months ended September 30, 2009, shares used in the EPS calculation represent basic shares, since using diluted shares would have been anti-dilutive to the calculation.

In the event the average market price of LNC common stock exceeds the issue price of stock options, such options would be dilutive to our EPS and will be shown in the table above. Participants in our deferred compensation plans that select LNC stock for measuring the investment return attributable to their deferral amounts will be paid out in LNC stock. The obligation to satisfy these deferred compensation plan liabilities is dilutive and is shown in the table above.

The income used in the calculation of our diluted EPS is our net income (loss), reduced by preferred stock dividends and accretion of discount along with our minority interest adjustments related to outstanding stock options under the Delaware Investments U.S., Inc. ("DIUS") stock option incentive plan of less than $1 million for the three and nine months ended September 30, 2009, and 2008. These amounts are presented on our Consolidated Statements of Income (Loss).

OCI

The following summarizes the changes in OCI (in millions):

	For the Nine Months Ended September 30, 2009			For the Nine Months Ended September 30, 2008		
	Pre-Tax	Tax	Net	Pre-Tax	Tax	Net
Net unrealized gain (loss) on AFS securities	$4,434	$(1,568)	$2,866	$(3,046)	$1,056	$(1,990)
Unrealized OTTI on AFS securities	(161)	56	(105)	-	-	-
Net unrealized gain (loss) on derivative instruments	(102)	(14)	(116)	3	(2)	1
Foreign currency translation adjustment	98	(36)	62	(90)	36	(54)
Funded status of employee benefit plans	(34)	12	(22)	12	(4)	8
Total OCI	$4,235	$(1,550)	$2,685	$(3,121)	$1,086	$(2,035)

13. Realized Loss

Details underlying realized loss (in millions) reported on our Consolidated Statements of Income (Loss) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Total realized loss on investments and certain derivative instruments, excluding trading securities (1)	$(136)	$(315)	$(444)	$(473)
Gain (loss) on certain reinsurance derivative/trading securities (2)	71	(2)	83	-
Indexed annuity net derivative results (3):				
Gross gain (loss)	(9)	8	-	19
Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL	5	(5)	-	(10)
Guaranteed living benefits (4):				
Gross gain (loss)	(216)	159	(450)	196
Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL	2	(59)	(16)	(85)
Guaranteed death benefits (5):				
Gross gain (loss)	(97)	8	(203)	10
Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL	12	(1)	26	(3)
Gain on sale of subsidiaries/businesses	-	-	1	-
Total realized loss	$(368)	$(207)	$(1,003)	$(346)

(1) See "Realized Loss Related to Investments" section in Note 5.

(2) Represents changes in the fair value of total return swaps (embedded derivatives) related to various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements. Changes in the fair value of these derivatives are offset by the change in fair value of trading securities in the portfolios that support these arrangements.

(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under the Fair Value Measurements and Disclosures Topic of the FASB ASC. The nine months ended September 30, 2008, included a $10 million gain from the initial impact of adopting the Fair Value Measurements and Disclosures Topic of the FASB ASC.

(4) Represents the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments. The nine months ended September 30, 2008, included a $34 million loss from the initial impact of adopting the Fair Value Measurements and Disclosures Topic of the FASB ASC.

(5) Represents the change in the fair value of the derivatives used to hedge our GDB riders.

14. Pension and Other Postretirement Benefit Plans

The components of net defined benefit pension plan and other postretirement benefit plan expense (in millions) reported in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss) were as follows:

	For the Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
U.S. Plans				
Service cost (1)	$1	$-	$1	$1
Interest cost	15	15	2	2
Expected return on plan assets	(14)	(19)	(1)	-
Recognized net actuarial loss	7	1	-	-
Net periodic benefit expense (recovery)	$9	$(3)	$2	$3
Non-U.S. Plans				
Interest cost	$1	$5		
Expected return on plan assets	(1)	(5)		
Recognized net actuarial loss	-	1		
Recognized net actuarial loss due to curtailment (2)	1	-		
Net periodic benefit expense	$1	$1		

	For the Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
U.S. Plans				
Service cost (1)	$3	$1	$2	$2
Interest cost	46	46	6	6
Expected return on plan assets	(42)	(58)	(2)	(1)
Recognized net actuarial (gain) loss	21	3	(1)	(1)
Net periodic benefit expense (recovery)	$28	$(8)	$5	$6
Non-U.S. Plans				
Service cost	$1	$2		
Interest cost	12	15		
Expected return on plan assets	(11)	(16)		
Recognized net actuarial loss (2)	1	2		
Recognized net actuarial loss due to curtailment (2)	1	-		
Net periodic benefit expense	$4	$3		

(1) Amounts for our pension plans represent general and administrative expenses.
(2) We retained the UK pension and as a result of the Lincoln UK sale, the plan was frozen, which resulted in a curtailment.

15. Stock-Based Incentive Compensation Plans

We sponsor various incentive plans for our employees, agents, directors and subsidiaries that provide for the issuance of stock options, stock incentive awards, SARs, restricted stock awards, restricted stock units ("performance shares") and deferred stock units. DIUS has a separate stock-based incentive compensation plan, which has DIUS stock underlying the awards.

In the second quarter of 2009, a performance period from 2009-2011 was approved for our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consists of LNC restricted stock units representing approximately 27%, LNC stock options representing approximately 40% and performance cash awards representing approximately 33% of the total award. LNC stock options granted for this performance period vest ratably over the three-year period, based solely on a service condition. DIUS restricted stock units granted for this performance period vest ratably over a four-year period, based solely on a service condition and were granted only to employees of DIUS. Under the 2009-2011 plan, 609,175 LNC stock options, 243,313 DIUS restricted stock units and 684,619 LNC restricted stock units were granted during the nine months ended September 30, 2009. In addition, as required under TARP CPP, we have complied with enhanced compensation restrictions for certain executives and employees. None of the awards for the three months ended September 30, 2009 were granted to employees who are currently subject to enhanced compensation restrictions.

Total LNC stock-based awards granted during the three and nine months ended September 30, 2009, were as follows:

Awards	For the Three Months Ended September 30, 2009 (1)	For the Nine Months Ended September 30, 2009
10-year LNC stock options	(9,072)	478,521
Non-employee director stock options	-	84,901
Non-employee agent stock options	(65)	130,654
Restricted stock	105,566	684,619
Performance shares	-	48,840
SARs	(2,651)	114,800

(1) For the three months ended September 30, 2009, negative amounts for specific classes of awards were the result of the revocation of previously granted awards.

16. Fair Value of Financial Instruments

The carrying values and estimated fair values of our financial instruments (in millions) were as follows:

	As of September 30, 2009		As of December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity	$60,666	$60,666	$48,141	$48,141
Equity	283	283	254	254
Trading securities	2,548	2,548	2,333	2,333
Mortgage loans on real estate	7,277	7,541	7,715	7,424
Derivative instruments	1,282	1,282	3,397	3,397
Other investments	1,080	1,080	1,624	1,624
Cash and invested cash	3,161	3,161	5,589	5,589
Reinsurance related embedded derivatives	-	-	31	31
Liabilities				
Future contract benefits:				
Indexed annuity contracts	(391)	(391)	(252)	(252)
GLB embedded derivative reserves	(1,101)	(1,101)	(2,904)	(2,904)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(919)	(919)	(782)	(782)
Account value of certain investment contracts	(24,028)	(24,045)	(21,974)	(22,372)
Short-term debt (1)	(400)	(398)	(815)	(775)
Long-term debt	(4,789)	(4,414)	(4,731)	(2,909)
Reinsurance related embedded derivatives	(39)	(39)	-	-
Off-Balance-Sheet				
Guarantees	-	-	-	(1)

(1) The difference between the carrying value and fair value of short-term debt as of September 30, 2009, and December 31, 2008, related to current maturities of long-term debt.

Valuation Methodologies and Associated Inputs for Financial Instruments Not Carried at Fair Value

The following discussion outlines the methodologies and assumptions used to determine the fair value of our financial instruments not carried at fair value. Considerable judgment is required to develop these assumptions used to measure fair value. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of our financial instruments.

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt service coverage, loan to value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price or the fair value of the collateral if the loan is collateral dependent.

Other Investments and Cash and Invested Cash

The carrying value of our assets classified as other investments and cash and invested cash on our Consolidated Balance Sheets approximates their fair value. Other investments include limited partnership and other privately held investments that are accounted for using the equity method of accounting.

Other Contract Holder Funds

Other contract holder funds on our Consolidated Balance Sheets includes remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2009, and December 31, 2008, the remaining guaranteed interest and similar contracts carrying value approximates fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date.

Short-term and Long-term Debt

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analysis determined in conjunction with our incremental borrowing rate as of the balance sheet date for similar types of borrowing arrangements where quoted prices are not available. For short-term debt, excluding current maturities of long-term debt, the carrying value approximates fair value.

Guarantees

Our guarantees relate to mortgage loan pass-through certificates. Based on historical performance where repurchases have been negligible and the current status of the debt, none of the loans are delinquent and the fair value liability for the guarantees related to mortgage loan pass-through certificates is insignificant.

Financial Instruments Carried at Fair Value

Our measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which would include our own credit risk. Our estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability ("entry price"). Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB ASC, we categorize our financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date as "blockage discounts" for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market are prohibited;
- Level 2 – inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 – inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2009, or December 31, 2008, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described above:

	As of September 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$61	$43,711	$ 2,076	$45,848
U.S. Government bonds	185	33	3	221
Foreign government bonds	-	417	76	493
MBS:				
CMOs	-	5,933	96	6,029
MPTS	-	2,557	108	2,665
CMBS	-	2,006	247	2,253
ABS:				
CDOs	-	3	137	140
CLNs	-	-	318	318
State and municipal bonds	-	-	1,464	1,464
Hybrid and redeemable preferred stocks	13	1,112	110	1,235
Equity AFS securities:				
Banking securities	18	138	-	156
Insurance securities	3	-	41	44
Other financial services securities	-	6	21	27
Other securities	31	2	23	56
Trading securities	4	2,442	102	2,548
Derivative investments	-	(170)	1,452	1,282
Cash and invested cash	-	3,161	-	3,161
Separate account assets	-	70,111	-	70,111
Total assets	$315	$131,462	$ 6,274	$138,051
Liabilities				
Future contract benefits:				
Indexed annuity contracts	$-	$-	$ (391)	$(391)
GLB embedded derivative reserves	-	-	(1,101)	(1,101)
Reinsurance related embedded derivatives	-	(39)	-	(39)
Total liabilities	$-	$(39)	$ (1,492)	$(1,531)

The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any impact of amortization on DAC, VOBA, DSI and DFEL. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended September 30, 2009					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (1)	Ending Fair Value
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$1,991	$(11)	$171	$59	$(134)	$2,076
U.S. Government bonds	3	-	-	-	-	3
Foreign government bonds	100	-	5	(5)	(24)	76
MBS:						
CMOs	123	(11)	15	(9)	(22)	96
MPTS	154	-	3	(2)	(47)	108
CMBS	230	-	27	(10)	-	247
ABS:						
CDOs	110	(8)	38	(3)	-	137
CLNs	219	-	99	-	-	318
State and municipal bonds	907	-	54	423	80	1,464
Hybrid and redeemable preferred stocks	97	-	10	3	-	110
Equity AFS securities:						
Insurance securities	34	(8)	15	-	-	41
Other financial services securities	16	-	5	-	-	21
Other securities	23	-	-	-	-	23
Trading securities	86	23	-	4	(11)	102
Derivative investments	1,465	(85)	3	69	-	1,452
Future contract benefits:						
Indexed annuity contracts	(294)	(54)	-	(43)	-	(391)
GLB embedded derivative reserves	(1,072)	20	-	(49)	-	(1,101)
Total, net	$4,192	$(134)	$445	$437	$(158)	$4,782

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	For the Nine Months Ended September 30, 2009					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (1)	Ending Fair Value
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$2,356	$(49)	$223	$(125)	$(329)	$2,076
U.S. Government bonds	3	-	-	-	-	3
Foreign government bonds	60	-	3	(7)	20	76
MBS:						
CMOs	161	(16)	18	(18)	(49)	96
MPTS	18	-	4	96	(10)	108
CMBS	244	1	44	(42)	-	247
ABS:						
CDOs	152	(40)	45	(20)	-	137
CLNs	50	-	268	-	-	318
State and municipal bonds	126	-	52	1,169	117	1,464
Hybrid and redeemable preferred stocks	96	-	-	6	8	110
Equity AFS securities:						
Insurance securities	50	(7)	19	(21)	-	41
Other financial services securities	21	(3)	6	(3)	-	21
Other securities	23	2	(1)	(1)	-	23
Trading securities	81	22	-	1	(2)	102
Derivative investments	2,148	(571)	(6)	(119)	-	1,452
Future contract benefits:						
Indexed annuity contracts	(252)	(4)	-	(135)	-	(391)
GLB embedded derivative reserves	(2,904)	1,934	-	(131)	-	(1,101)
Total, net	$2,433	$1,269	$675	$650	$(245)	$4,782

(1) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in prior periods.

The following provides the components of the items included in net income, excluding any impact of amortization on DAC, VOBA, DSI and DFEL and changes in future contract benefits, (in millions) as reported above:

	For the Three Months Ended September 30, 2009				
	(Amortization) Accretion, Net	OTTI	Gains (Losses) from Sales, Maturities, Settlements, Calls	Unrealized Holding Gains (Losses) (1)	Total
Investments:					
Fixed maturity AFS securities:					
Corporate bonds	$ 1	$ (10)	$ (2)	$ -	$ (11)
MBS:					
CMOs	-	(10)	(1)	-	(11)
ABS:					
CDOs	-	(9)	1	-	(8)
Equity AFS securities:					
Insurance securities	-	(8)	-	-	(8)
Trading securities (2)	-	(1)	-	24	23
Derivative investments (3)	-	-	(8)	(77)	(85)
Future contract benefits:					
Indexed annuity contracts	-	-	5	(59)	(54)
GLB embedded derivative reserves	-	-	8	12	20
Total, net	$ 1	$ (38)	$ 3	$ (100)	$ (134)

	For the Nine Months Ended September 30, 2009				
	(Amortization) Accretion, Net	OTTI	Gains (Losses) from Sales, Maturities, Settlements, Calls	Unrealized Holding Gains (Losses) (1)	Total
Investments:					
Fixed maturity AFS securities:					
Corporate bonds	$ 3	$ (47)	$ (5)	$ -	$ (49)
MBS:					
CMOs	1	(16)	(1)	-	(16)
CMBS	1	-	-	-	1
ABS:					
CDOs	-	(42)	2	-	(40)
Equity AFS securities:					
Insurance securities	-	(8)	1	-	(7)
Other financial services securities	-	(3)	-	-	(3)
Other securities	-	-	2	-	2
Trading securities (2)	2	(2)		22	22
Derivative investments (3)	-	-	(48)	(523)	(571)
Future contract benefits:					
Indexed annuity contracts	-	-	23	(27)	(4)
GLB embedded derivative reserves	-	-	37	1,897	1,934
Total, net	$ 7	$ (118)	$ 11	$ 1,369	$ 1,269

(1) This change in unrealized gains or losses relates to assets and liabilities that we still held as of September 30, 2009.
(2) Amortization and accretion, net and unrealized holding losses are included in net investment income on our Consolidated Statements of Income (Loss). All other amounts are included in realized loss on our Consolidated Statements of Income (Loss).
(3) All amounts are included in realized loss on our Consolidated Statements of Income (Loss).

Valuation Methodologies and Associated Inputs for Financial Instruments Carried at Fair Value

Investments

We measure our investments that are required to be carried at fair value based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and we consistently apply the valuation methodology to measure the security's fair value. Our fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include third-party pricing services, independent broker quotations or pricing matrices. We use observable and unobservable inputs to our valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with senior business leaders and brokers and observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, we use unobservable inputs in order to measure the fair value of these securities. In cases where this information is not available, such as for privately placed securities, fair value is estimated using an internal pricing matrix. This matrix relies on management's judgment concerning the discount rate used in calculating expected future cash flows, credit quality, industry sector performance and expected maturity.

We do not adjust prices received from third parties; however, we do analyze the third-party pricing services' valuation methodologies and related inputs and perform additional evaluation to determine the appropriate level within the fair value hierarchy.

The observable and unobservable inputs to our valuation methodologies are based on a set of standard inputs that we generally use to evaluate all of our AFS securities. The standard inputs used in order of priority are benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Depending on the type of security or the daily market activity, standard inputs may be prioritized differently or may not be available for all AFS securities on any given day. In addition to the defined standard inputs to our valuation methodologies, we also use Trade Reporting and Compliance EngineTM reported tables for our corporate bonds and vendor trading platform data for our U.S. Government bonds. MBS and ABS utilize additional inputs which include new issues data, monthly payment information and monthly collateral performance, including prepayments, severity, delinquencies, step down features and over collateralization features. The valuation methodologies for our state and municipal bonds use additional inputs which include information from the Municipal Securities Rule Making Board, as well as material event notices, new issue data, issuer financial statements and Municipal Market Data benchmark yields. Our hybrid and redeemable preferred stocks and equity AFS securities utilize additional inputs of exchange prices (underlying and common stock of the same issuer).

Trading securities consist of fixed maturity and equity securities in designated portfolios, which support Modco and CFW reinsurance arrangements. The valuation methodologies and inputs for our trading securities are determined in the same manner as our securities classified as AFS discussed above. For discussion of the significant inputs of our embedded derivatives for Level 2 and Level 3, see the discussion of derivative investments below.

Derivative Investments

We employ several different methods for determining the fair value of our derivative instruments. The fair value of our derivative instruments is measured based on current settlement values, which are based on quoted market prices, industry standard models that are commercially available and broker quotes. These techniques project cash flows of the derivatives using current and implied future market conditions. We calculate the present value of the cash flows to measure the current fair market value of the derivative.

Cash and Invested Cash

Cash and invested cash is carried at cost, which approximates fair value. This category includes highly liquid debt instruments purchased with a maturity of three months or less. Due to the nature of these assets, we believe these assets should be classified as Level 2.

Reinsurance Related Embedded Derivative

The fair value of our reinsurance embedded derivative is estimated using the same methodologies and associated inputs as our investments as discussed above.

Separate Account Assets

The fair value of our separate account assets is estimated using the same methodologies and associated inputs as our investments, as discussed above. The related separate account liabilities are reported at an amount equivalent to the separate account assets. Investment risks associated with market value changes are borne by the contract holders, except to the extent of minimum guarantees made by the Company with respect to certain accounts. See Note 9 for additional information regarding arrangements with contractual guarantees.

Future Contract Benefits

The fair value of our indexed annuity contracts is based on their approximate surrender values.

The fair value of the GLB embedded derivative reserves is based on their approximate surrender values, including an estimate for our non-performance risk.

17. Segment Information

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

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

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. The following is a brief description of these segments and Other Operations.

Retirement Solutions

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Retirement Solutions – Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities and variable annuities. The Retirement Solutions – Defined Contribution segment provides employer-sponsored variable and fixed annuities and mutual-fund based programs in the 401(k), 403(b) and 457 marketplaces.

Insurance Solutions

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Insurance Solutions – Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single and survivorship versions of UL and VUL, including corporate-owned UL and VUL insurance and bank-owned UL and VUL insurance products. The Insurance Solutions – Group Protection segment offers group life, disability and dental insurance to employers, and its products are marketed primarily through a national distribution system of regional group offices. These offices develop business through employee benefit brokers, third-party administrators and other employee benefit firms.

Other Operations

Other Operations includes investments related to the excess capital in our insurance subsidiaries, investments in media properties and other corporate investments, benefit plan net assets, the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance to Swiss Re in 2001 and external debt. We are actively managing our remaining radio station clusters to maximize performance and future value. Other Operations also includes the Institutional Pension business, which is a closed-block of pension business, the majority of which was sold on a group annuity basis, and is currently in run-off; and the results of certain disability income business due to the rescission of this business previously sold to Swiss Re.

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Segment operating revenues and income (loss) from operations are internal measures used by our management and Board of Directors to evaluate and assess the results of our segments. Income (loss) from operations is GAAP net income excluding the after-tax effects of the following items, as applicable:

- Realized gains and losses associated with the following ("excluded realized loss"):
  - § Sale or disposal of securities;
  - § Impairments of securities;
  - § Change in the fair value of embedded derivatives within certain reinsurance arrangements and the change in the fair value of our trading securities;
  - § Net difference between the portion of the change in the GDB benefit reserves resulting from benefit ratio unlocking ("benefit ratio reserves") within our variable annuities and the change in the fair value of the derivatives we own to hedge the changes in the benefit ratio reserves, excluding our expected cost of purchasing the hedging instruments;
  - § Change in the GLB embedded derivative reserves and GLB benefit ratio reserves within our variable annuities net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves; and
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC.
- Income (loss) from the initial adoption of new accounting standards;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Gains (losses) on early retirement of debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

- Excluded realized loss;
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and
- Revenue adjustments from the initial adoption of new accounting standards.

Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Operating revenues:				
Retirement Solutions:				
Annuities	$523	$675	$1,559	$1,916
Defined Contribution	236	241	676	718
Total Retirement Solutions	759	916	2,235	2,634
Insurance Solutions:				
Life Insurance	1,089	1,074	3,168	3,216
Group Protection	414	403	1,279	1,227
Total Insurance Solutions	1,503	1,477	4,447	4,443
Other Operations	120	135	340	412
Excluded realized loss, pre-tax	(302)	(259)	(924)	(420)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	2	2
Total revenues	$2,081	$2,270	$6,100	$7,071

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Income (Loss)				
Income (loss) from operations:				
Retirement Solutions:				
Annuities	$95	$131	$234	$365
Defined Contribution	43	42	100	124
Total Retirement Solutions	138	173	334	489
Insurance Solutions:				
Life Insurance	137	137	412	458
Group Protection	35	27	94	86
Total Insurance Solutions	172	164	506	544
Other Operations	(34)	(39)	(195)	(128)
Excluded realized loss, after-tax	(196)	(169)	(600)	(274)
Gain on early extinguishment of debt, net of tax	-	-	42	-
Income from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	1	1
Impairment of intangibles, after-tax	1	-	(601)	(139)
Income (loss) from continuing operations, after-tax	81	129	(513)	493
Income (loss) from discontinued operations, after-tax	72	19	(74)	69
Net income (loss)	$153	$148	$(587)	$562

18. Supplemental Disclosures of Cash Flow

The following summarizes our supplemental cash flow data (in millions):

	For the Nine Months Ended September 30,	
	2009	2008
Significant non-cash investing and financing transactions:		
Business dispositions:		
Assets disposed (includes cash and invested cash)	$ -	$ (732)
Liabilities disposed	-	126
Cash received	-	647
Realized gain on disposal	-	41
Estimated loss on net assets held-for-sale in prior periods	-	(54)
Loss on dispositions	$ -	$ (13)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition of Lincoln National Corporation and its consolidated subsidiaries ("LNC," "Lincoln" or the "Company" which also may be referred to as "we," "our" or "us") as of September 30, 2009, compared with December 31, 2008, and the results of operations of LNC for the three and nine months ended September 30, 2009, as compared with the corresponding periods in 2008. The MD&A is provided as a supplement to, and should be read in conjunction with: our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly reports on Form 10-Q filed in 2009; and our current reports on Form 8-K filed in 2009.

See Note 2 for a detailed discussion of how the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC") is now the single source of authoritative United States of America generally accepted accounting principles ("GAAP") recognized by the FASB. Accordingly, we have revised all references to GAAP accounting standards in this filing to reflect the appropriate references in the new FASB ASC.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Income (loss) from operations is net income recorded in accordance with GAAP excluding the after-tax effects of the following items, as applicable:

- Realized gains and losses associated with the following ("excluded realized loss"):
  - § Sale or disposal of securities;
  - § Impairments of securities;
  - § Change in the fair value of embedded derivatives within certain reinsurance arrangements and the change in the fair value of our trading securities;
  - § Net difference between the portion of the change in reserves accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking ("benefit ratio reserves") of our guaranteed death benefit ("GDB") riders within our variable annuities and the change in the fair value of the derivatives we own to hedge the changes in the benefit ratio reserves, excluding our expected cost of purchasing the hedging instruments, the net of which is referred to as "GDB derivatives results";
  - § Change in the fair value of the embedded derivatives of our guaranteed living benefit ("GLB") riders within our variable annuities accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves") and GLB benefit ratio reserves, net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves, the net of which is referred to as "GLB net derivative results"; and
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("indexed annuity forward-starting option").
- Income (loss) from the initial adoption of new accounting standards;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Gains (losses) on early retirement of debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

- Excluded realized loss;
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and
- Revenue adjustments from the initial adoption of new accounting standards.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we report operating revenues and income (loss) from operations by segment in Note 17. Our management and Board of Directors believe that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.
Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by LNC or on LNC's behalf are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: "believe," "anticipate," "expect," "estimate," "project," "will," "shall" and other words or phrases with similar meaning i connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. LNC claims the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

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

- Continued deterioration in general economic and business conditions, both domestic and foreign, that may affect foreign exchange rates, premium levels, claims experience, the level of pension benefit costs and funding and investment results;
- Continued economic declines and credit market illiquidity could cause us to realize additional impairments on investments and certain intangible assets, including goodwill and a valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Uncertainty about the impact of the U.S. Treasury's Troubled Asset Relief Program ("TARP") on the economy;
- The cost and other consequences of our participation in the TARP Capital Purchase Program ("CPP"), including the impact of existing regulation and future regulations to which we may become subject;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, LNC's products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital ("RBC") requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline ("AG") 43 ("AG43," also known as Commissioners Annuity Reserve Valuation Method for Variable Annuities or "VACARVM"); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;
- The initiation of legal or regulatory proceedings against LNC or its subsidiaries, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which LNC and its subsidiaries compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and extra-contractual and class action damage cases; new decisions that result in changes in law; and unexpected trial court rulings;

- Changes in interest rates causing a reduction of investment income, the margins of LNC's fixed annuity and life insurance businesses and demand for LNC's products;
- A decline in the equity markets causing a reduction in the sales of LNC's products, a reduction of asset-based fees that LNC charges on various investment and insurance products, an acceleration of amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") and an increase in liabilities related to guaranteed benefit features of LNC's variable annuity products;
- Ineffectiveness of LNC's various hedging strategies used to offset the impact of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from LNC's assumptions used in pricing its products, in establishing related insurance reserves and in the amortization of intangibles that may result in an increase in reserves and a decrease in net income, including as a result of stranger-originated life insurance business;
- Changes in GAAP that may result in unanticipated changes to LNC's net income;

- Lowering of one or more of LNC's debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on LNC's ability to raise capital and on its liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of LNC's insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of its insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in the portfolios of LNC's companies requiring that LNC realize losses on such investments;
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including LNC's ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- The adequacy and collectibility of reinsurance that LNC has purchased;
- Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect LNC's businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that LNC can charge for its products;
- The unknown impact on LNC's business resulting from changes in the demographics of LNC's client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this report, our 2008 Form 10-K, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could impact LNC's business and financial performance, including "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and the risk discussions included in this section under "Critical Accounting Policies and Estimates," "Consolidated Investments" and "Reinsurance," which are incorporated herein by reference. Moreover, LNC operates in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, term life insurance and mutual funds.

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

Business	Corresponding Segments
Retirement Solutions	Annuities
	Defined Contribution
Insurance Solutions	Life Insurance

Group Protection

These operating businesses and their segments are described in "Part I – Item 1. Business" of our 2008 Form 10-K.

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Other Operations also includes our run-off Institutional Pension business, the results of certain disability income business due to the rescission of this business previously sold to Swiss Re and the results of our remaining media businesses.

Our former Lincoln UK and Investment Management segments are reported in discontinued operations for all periods presented.

Current Market Conditions

Subsequent to the first quarter of 2009, the capital and credit markets showed signs of improvement following a period of extreme volatility and disruption that affected both equity market returns and interest rates. During this period, credit spreads widened across asset classes and reduced liquidity in the credit markets. The price of our common stock steadily increased during the second and third quarters of 2009 to close at $25.91 on September 30, 2009, as compared to $18.84 on December 31, 2008, after having traded at a low of $4.90 during the first quarter of 2009. Analysts and economists noted in January 2009 that the U.S. economy lost more jobs in 2008 than in any year subsequent to World War II and projected that the economic recovery might take longer than previously expected. We also experienced a series of ratings downgrades primarily from February 2009 to May 2009 as depressed capital markets continued to strain our liquidity as we prepared to fund debt maturities in the second quarter of 2009; however, during June of 2009 and following the announcement about our planned capital actions discussed below, all four of the major independent rating agencies affirmed our financial strength ratings, and Standard & Poor's ("S&P") improved its outlook on our company to stable from negative.

Earnings will continue to be unfavorably impacted by the prior significant decline in the equity markets. Due to these challenges, the capital markets had a significant effect on our segment income (loss) from operations and consolidated net income during the first nine months of 2009. In the face of these capital market challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution in new and existing key accounts and channels and targeting market segments that have high growth potential while maintaining a disciplined approach to managing our expenses. During the third quarter of 2009, we experienced modestly lower deposits but significantly higher net flows than in the corresponding period of 2008.

The markets have primarily impacted the following areas:

Adequacy of Our Liquidity and Capital Positions

We are committed to managing our capital effectively. The continued adequacy of our liquidity resources to meet requirements of our businesses and our holding company depends upon such factors as market conditions and our ability to access sources of liquidity. In addition, market volatility impacts the level of capital required to support our businesses.

Given this dynamic and challenging environment, we have taken measures to prudently and actively manage our liquidity and capital positions. As discussed in "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities," we issued $690 million of common stock and $500 million of senior notes during the second quarter of 2009 and issued $950 million preferred stock and a common stock warrant through the U.S. Treasury's TARP CPP in the third quarter of 2009, as discussed below in "TARP CPP." These actions compliment our past actions of reducing the dividend on our common stock, suspending stock repurchase activity, restructuring the company to reduce overall expenses and entering into a reinsurance transaction to increase statutory capital for our primary insurance subsidiary.

Currently, we expect to meet the ongoing cash needs of the holding company for the foreseeable future as a result of the raising of $2.1 billion as part of several capital transactions and in combination with expense savings and sales discussed below in "Acquisitions and Dispositions." We also expect to maintain more liquidity at the holding company as compared to prior years.

For more information on our liquidity and capital positions, see "Review of Consolidated Financial Condition" below.

Earnings from Account Values

Our asset-gathering segments – Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution – are the most sensitive to the equity markets. We discuss the earnings impact of the equity markets on account values and the related asset-based earnings below in "Item 3. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Impact of Equity Market Sensitivity." From December 31, 2008, to September 30, 2009, our account values were up $19 billion driven by strong deposits, positive net flows and recent improvements in the equity markets. The effect of the negative equity markets on our account values that subsided in the second quarter of 2009 will continue to dampen our earnings in 2009 even if the equity market returns become consistent with our long-term assumptions. While our ending variable account values as of September 30, 2009, were modestly higher than as of September 30, 2008, the daily average account values for the three and nine months ended September 30, 2009, were much lower than the corresponding period in the prior year, consistent with the reduction in our asset-based earnings. Accordingly, we may continue to report lower asset-based fees, higher DAC and VOBA amortization and higher reserves related to our GDB guarantees relative to expectations or prior periods.

Investment Income on Alternative Investments

We believe that overall market conditions in both the equity and credit markets caused our alternative investments portfolio, which consists primarily of hedge funds and various limited partnership investments, to under-perform relative to our long-term return expectations, and we expect these assets to continue to under-perform at least in the short term. During the first nine months of 2009, the most significant unfavorable impact from these investments was related to audit adjustments from the completion of calendar-year financial statement audits of our investees, determined and recognized during the second quarter of 2009. The audit reports that we received for these investees reflected a lower equity balance than the unaudited financial statements that we had been provided previously that were used as the basis for valuation at year end 2008 and the first quarter of 2009. These investments impact primarily our Insurance Solutions – Life Insurance segment and to a lesser extent our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. See "Consolidated Investments – Alternative Investments" for additional information on our investment portfolio and further discussion on the nature of the audit adjustments referred to above.

Variable Annuity Hedge Program Results

We offer variable annuity products with living benefit guarantees. As described below in "Critical Accounting Policies and Estimates – Derivatives – Guaranteed Living Benefits," we use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the GLB embedded derivatives in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in embedded derivative reserves. For the first nine months of 2009, impacts of changes in interest rate risk unfavorably affected the net change in GLB embedded derivative reserves, excluding the effect of our non-performance risk ("NPR"), and the change in fair value of the hedging derivatives. This impact was heightened as a result of our decision not to hedge all of the interest rate risk in response to the pending adoption of VACARVM, which is discussed further below.

The NPR factors result in an additional amount added to the discount rate in the calculation of the GLB embedded derivative reserve. The NPR factors are impacted by our holding company's credit default swap ("CDS") spreads adjusted for items, such as the liquidity of our holding company CDS. Because the guaranteed benefit liabilities are contained within our insurance subsidiaries, we apply items, such as the impact of our insurance subsidiaries' claims-paying ratings compared to holding company credit risk and the over-collateralization of insurance liabilities, in order to determine factors that are representative of a theoretical market participant's view of the NPR of the specific liability within our insurance subsidiaries. This had an unfavorable effect during the first nine months of 2009 attributable to narrowing of credit spreads. These results are excluded from the Retirement Solutions – Annuities and Defined Contribution segments' operating revenues and income from operations. See "Realized Loss – Operating Realized Gain (Loss) – GLB" for information on our methodology for calculating the NPR.

We also offer variable products with death benefit guarantees. As described in "Critical Accounting Policies and Estimates – Future Contract Benefits and Other Contract Holder Obligations – Guaranteed Death Benefits" in our 2008 Form 10-K, we use derivative instruments to attempt to hedge in the opposite direction of the changes in our associated GDB benefit ratio reserves for movements in equity markets. These results are excluded from income (loss) from operations.

Variable Annuity Business Model

In order to address the realities of the current market conditions in the variable annuity marketplace, in late January 2009, we introduced changes to our GLB riders including increased rider fees, reduced roll-up periods and tighter investment restrictions on new business and a large percentage of in-force account value. Increased equity market implied volatility and falling interest rates have increased the cost of providing GLBs. The January product changes reduce our exposure to equity market volatility and interest rate movements while compensating us for increasing costs to provide the benefits.

Credit Losses, Impairments and Unrealized Losses

Related to our investments in fixed income and equity securities, we experienced net realized losses which reduced net income by $82 million and $238 million for the three and nine months ended September 30, 2009, and included credit related write-downs of securities for other-than-temporary impairments ("OTTI") of $52 million and $207 million, respectively. Although economic conditions have improved, we expect a continuation of some level of OTTI. If we were to experience another period of weakness in the economic environment like we did in late 2008 and early 2009, it could lead to increased credit defaults, resulting in additional write-downs of securities for OTTI.

Increased liquidity in several market segments and improved credit fundamentals (i.e., market improvement and narrowing credit spreads) as of September 30, 2009, compared to December 31, 2008, has resulted in the $4.3 billion decrease in gross unrealized losses on the available-for-sale ("AFS") fixed maturity securities in our general account as of September 30, 2009. Our unrealized losses are concentrated in the investment grade category of investments and demonstrate how reduced liquidity in the credit markets has impacted asset values.

Stimulus Legislation

In reaction to the recession, credit market illiquidity and global financial crisis experienced during the latter part of 2008 and into 2009, Congress enacted the Emergency Economic Stabilization Act of 2008 ("EESA") on October 3, 2008, and the American Recovery and Reinvestment Act of 2009 ("ARRA") which was signed into law on February 17, 2009, in an effort to restore liquidity to the U.S. credit markets and stimulate the U.S. economy. The ARRA and TARP authorized the purchase of "troubled assets" from financial institutions, including insurance companies. Pursuant to the authority granted under the TARP, the U.S. Treasury also adopted the CPP, the Generally Available Capital Access Program and the Exceptional Financial Recovery Assistance Program. It remains unclear at this point, if and when the EESA and ARRA will restore sustained liquidity and confidence in the markets and its affect on the fair value of our invested assets.

TARP CPP

On November 13, 2008, we filed an application to participate in the CPP that was established under the EESA. On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of Newton County Loan & Savings, FSB, a federally regulated savings bank, located in Indiana. We contributed $10 million to the capital of Newton County Loan & Savings, FSB, and closed on the purchase on January 15, 2009. On May 8, 2009, the U.S. Treasury granted us preliminary approval to participate in the CPP. On July 10, 2009, we issued, in a private placement, $950 million of Series B preferred stock and a warrant for 13,049,451 shares of our common stock with an exercise price of $10.92 per share to the U.S. Treasury under the CPP. See "Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities" for more information about our preferred stock issuance.

Participation in the CPP subjects us to increased oversight by the U.S. Treasury. The U.S. Treasury has the power to unilaterally amend the terms of the purchase agreement to the extent required to comply with changes in applicable statutes and to inspect our corporate books and records through our federal banking regulators. In addition, the U.S. Treasury has the right to appoint two directors to our Board if we miss dividend payments on the preferred stock as discussed below. Participation in the CPP may also subject us to increased Congressional scrutiny.

In connection with participating in the CPP, we registered as a savings and loan holding company, which subjects us to new legal and regulatory requirements, including minimum capital requirements, and subjects us to oversight, regulation and examination by the Office of Thrift Supervision.

We are also subject to certain restrictions, notably, limits on incentive compensation for certain executives and employees for the duration of the U.S. Treasury's investment. We are also subject to limits on increasing the dividend on our common stock and redeeming capital stock (unless the U.S. Treasury consents), both of which apply until the third anniversary of the U.S. Treasury's investment unless we redeem the Series B preferred shares in whole or the U.S. Treasury transfers all of the Series B preferred stock to third parties.

The U.S. Treasury will not vote the Series B preferred stock or the common stock it may receive upon exercise of the warrant. However, with respect to the Series B preferred stock, the U.S. Treasury would have class voting rights on the issuance of shares ranking senior to the Series B preferred stock, amendments to the rights of the Series B preferred stock or any merger, exchange or similar transaction that would adversely affect the rights of the Series B preferred stock. If dividends on the Series B preferred stock are not paid in full for six dividend periods, whether or not consecutive, the Series B preferred stock holders will have the right, together with the holders of any other affected classes of future parity stock, voting as a single class, to elect two directors.

Under current CPP documentation, if we receive aggregate cash proceeds equal to not less than 100% of the aggregate liquidation preference of the Series B preferred stock sold to the U.S. Treasury from the sale of shares of common stock, perpetual preferred stock or any combination of such securities after the closing of our CPP transaction and on or prior to December 31, 2009, the number of shares of common stock underlying the warrant held by the U.S. Treasury will be reduced by half. In addition, under current guidance, after redeeming the Series B preferred stock, we will have the right to repurchase the warrant for its appraised market value, and if we do not repurchase the warrant, the U.S. Treasury can liquidate the warrant. In addition, we have granted the U.S. Treasury registration rights covering the shares of Series B preferred stock, the warrant and the shares of common stock issuable upon the exercise of the warrant.

Challenges and Outlook

For the remainder of 2009, we expect major challenges to include:

- Unstable credit markets that impact our financing alternatives, spreads and other-than-temporary securities impairments;
- Volatile equity markets that have a significant impact on our hedge program performance and revenues;
- Continuation of the low interest rate environment, which affects the investment margins and reserve levels for many of our products, such as fixed annuities and UL;
- Possible additional intangible asset impairments, such as goodwill, if the financial performance of our reporting units deteriorates, our market capitalization remains below book value for a prolonged period of time or business valuation assumptions (such as discount rates and equity market volatility) are adversely affected;
- Achieving continued sales success with our portfolio of products, including marketplace acceptance of new variable annuity features, as well as retaining management and wholesaler talent to maintain our competitive position; and
- Continuing focus by the government on tax and healthcare reform including potential changes in company dividends-received deduction ("DRD") calculations, which may affect the value and profitability of our products and overall earnings.

In the face of these challenges, we expect to focus on the following throughout the remainder of 2009:

- Increase our product development activities together with identifying future product development initiatives, with a focus on further reducing risk related to guaranteed benefit riders available on with certain variable annuity contracts;
- Manage our expenses aggressively through cost reduction and process improvement initiatives combined with continued financial discipline and execution excellence throughout our operations;
- Execute on financing strategies addressing the statutory reserve strain related to our secondary guarantee UL products in order to manage our capital position effectively in accordance with our pricing guidelines; and
- Closely monitor our capital and liquidity positions taking into account the fragile economic recovery and changing statutory accounting and reserving practices.

For additional factors that could cause actual results to differ materially from those set forth in this section, see "Part I – Item 1A. Risk Factors" in our 2008 Form 10-K and "Forward-Looking Statements – Cautionary Language" in this report.

Critical Accounting Policies and Estimates

The MD&A included in our 2008 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the "Critical Accounting Policies and Estimates" provided in our 2008 Form 10-K and, accordingly, should be read in conjunction with the "Critical Accounting Policies and Estimates" discussed in our 2008 Form 10-K.

DAC, VOBA, DSI and DFEL

On a quarterly basis, we may record an adjustment to the amounts included within our Consolidated Balance Sheets for DAC, VOBA, DSI and DFEL with an offsetting benefit or charge to revenue or expense for the impact of the difference between future estimated gross profits ("EGPs") used in the prior quarter and the emergence of actual and updated future EGPs in the current quarter ("retrospective unlocking"). In addition, in the third quarter of each year, we conduct our annual comprehensive review of the assumptions and the projection models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees. These assumptions include investment margins, mortality, retention, rider utilization and maintenance expenses (costs associated with maintaining records relating to insurance and individual and group annuity contracts and with the processing of premium collections, deposits, withdrawals and commissions). Based on our review, the cumulative balances of DAC, VOBA, DSI and DFEL, included on our Consolidated Balance Sheets, are adjusted with an offsetting benefit or charge to revenue or amortization expense to reflect such change ("prospective unlocking – assumption changes"). We may also identify and implement actuarial modeling refinements ("prospective unlocking – model refinements") that result in increases or decreases to the carrying values of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees. The primary distinction between retrospective and prospective unlocking is that retrospective unlocking is driven by the difference between actual gross profits compared to EGPs each period, while prospective unlocking is driven by changes in assumptions or projection models related to our projections of future EGPs.

In discussing our results of operations below in this MD&A, we refer to favorable and unfavorable unlocking. With respect to DAC, VOBA and DSI, favorable unlocking refers to a decrease in the amortization expense in the period, whereas unfavorable unlocking refers to an increase in the amortization expense in the period. With respect to DFEL, favorable unlocking refers to an increase in the amortization income in the period, whereas unfavorable unlocking refers to a decrease in the amortization income in the period. With respect to the calculations of the embedded derivatives and reserves for annuity and life insurance products with living benefit and death benefit guarantees, favorable unlocking refers to a decrease in reserves in the period, whereas unfavorable unlocking refers to an increase in reserves in the period.

For illustrative purposes, the following presents the hypothetical impacts to EGP and DAC (1) amortization attributable to changes in assumptions from those our model projections assume, assuming all other factors remain constant:

Actual Experience Differs From Those Our Model Projections Assume	Hypothetical Impact to Net Income for EGPs	Hypothetical Impact to Net Income for DAC (1) Amortization	Description of Expected Impact
Higher equity markets	Favorable	Favorable	Increase to fee income and decrease to changes in reserves.
Lower equity markets	Unfavorable	Unfavorable	Decrease to fee income and increase to changes in reserves.
Higher investment margins	Favorable	Favorable	Increase to interest rate spread on our fixed product line, including fixed portion of variable.
Lower investment margins	Unfavorable	Unfavorable	Decrease to interest rate spread on our fixed product line, including fixed portion of variable.
Higher credit losses	Unfavorable	Unfavorable	Decrease to realized gains on investments.
Lower credit losses	Favorable	Favorable	Increase to realized gains on investments.
Higher lapses	Unfavorable	Unfavorable	Decrease to fee income, partially offset by decrease to benefits due to shorter contract life.
Lower lapses	Favorable	Favorable	Increase to fee income, partially offset by increase to benefits due to longer contract life.
Higher death claims	Unfavorable	Unfavorable	Decrease to fee income and increase to changes in reserves due to shorter contract life.
Lower death claims	Favorable	Favorable	Increase to fee income and decrease to changes in reserves due to longer contract life.

(1) DAC refers to the associated amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits.

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Details underlying the increase to income from continuing operations from our prospective unlocking (in millions) were as follows:

	For the Three Months Ended September 30,	
	2009	2008
Insurance fees:		