

LINCOLN NATIONAL CORP
Form 10-Q
November 10, 2008

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008.

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)

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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 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 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 Accelerated filer Non-accelerated filer 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

As of November 3, 2008, there were 255,881,396 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, 2008 (Unaudited)	As of December 31, 2007
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2008 \$56,211; 2007 \$56,069)	\$ 51,931	\$ 56,276
Equity (cost: 2008 \$612; 2007 \$548)	493	518
Trading securities	2,393	2,730
Mortgage loans on real estate	7,688	7,423
Real estate	127	258
Policy loans	2,870	2,885
Derivative investments	1,262	807
Other investments	1,193	1,075
Total investments	67,957	71,972
Cash and invested cash	2,160	1,665
Deferred acquisition costs and value of business acquired	11,652	9,580
Premiums and fees receivable	463	401
Accrued investment income	921	843
Reinsurance recoverables	8,222	8,187
Goodwill	4,041	4,144
Other assets	2,884	3,530
Separate account assets	74,971	91,113
Total assets	\$ 173,271	\$ 191,435
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Future contract benefits	\$ 16,281	\$ 16,007
Other contract holder funds	60,678	59,640
Short-term debt	635	550
Long-term debt	4,569	4,618
Reinsurance related derivative liability	(9)	220
Funds withheld reinsurance liabilities	2,062	2,117
Deferred gain on indemnity reinsurance	639	696
Payables for collateral under securities loaned and derivatives	1,668	1,135
Other liabilities	2,277	3,621
Separate account liabilities	74,971	91,113
Total liabilities	163,771	179,717

Contingencies and Commitments (See Note 10)

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Stockholders Equity

Series A preferred stock	10,000,000 shares authorized		
Common stock	800,000,000 shares authorized; 255,841,633 and 264,233,303 shares issued and outstanding as of September 30, 2008, and December 31, 2007, respectively	7,006	7,200
Retained earnings		4,304	4,293
Accumulated other comprehensive income (loss)		(1,810)	225
Total stockholders equity		9,500	11,718
Total liabilities and stockholders equity		\$ 173,271	\$ 191,435

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2008	
	2007	2007	2007	2007
	(Unaudited)			
Revenues				
Insurance premiums	\$ 533	\$ 491	\$ 1,572	\$ 1,439
Insurance fees	791	836	2,446	2,342
Investment advisory fees	68	89	220	272
Net investment income	1,089	1,062	3,231	3,285
Realized loss	(204)	(65)	(347)	(24)
Amortization of deferred gain on business sold through reinsurance	19	19	57	65
Other revenues and fees	140	169	431	514
Total revenues	2,436	2,601	7,610	7,893
Benefits and Expenses				
Interest credited	625	611	1,849	1,817
Benefits	836	623	2,199	1,866
Underwriting, acquisition, insurance and other expenses	754	850	2,408	2,475
Interest and debt expense	69	69	209	204
Impairment of intangibles			175	
Total benefits and expenses	2,284	2,153	6,840	6,362
Income from continuing operations before taxes	152	448	770	1,531
Federal income taxes	3	125	203	450
Income from continuing operations	149	323	567	1,081
Income (loss) from discontinued operations, net of federal incomes taxes	(1)	7	(5)	21
Net income	\$ 148	\$ 330	\$ 562	\$ 1,102
Earnings Per Common Share Basic				
Income from continuing operations	\$ 0.58	\$ 1.20	\$ 2.20	\$ 3.98
Income (loss) from discontinued operations		0.02	(0.02)	0.08
Net income	\$ 0.58	\$ 1.22	\$ 2.18	\$ 4.06
Earnings Per Common Share Diluted				
Income from continuing operations	\$ 0.58	\$ 1.19	\$ 2.18	\$ 3.93
Income (loss) from discontinued operations		0.02	(0.02)	0.07
Net income	\$ 0.58	\$ 1.21	\$ 2.16	\$ 4.00

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in millions, except per share data)

	For the Nine Months Ended September 30, 2008 2007 (Unaudited)	
Series A Preferred Stock		
Balance at beginning-of-year	\$	\$ 1
Balance at end-of-period		1
Common Stock		
Balance at beginning-of-year	7,200	7,449
Issued for acquisition		20
Stock compensation	51	113
Deferred compensation payable in stock	4	5
Retirement of common stock/cancellation of shares	(249)	(278)
Balance at end-of-period	7,006	7,309
Retained Earnings		
Balance at beginning-of-year	4,293	4,138
Cumulative effect of adoption of SOP 05-1		(41)
Cumulative effect of adoption of FIN 48		(15)
Cumulative effect of adoption of EITF 06-10	(4)	
Comprehensive income (loss)	(1,473)	686
Less other comprehensive loss, net of tax	(2,035)	(416)
Net income	562	1,102
Retirement of common stock	(227)	(408)
Dividends declared: Common (2008 \$1.245; 2007 \$1.185)	(320)	(320)
Balance at end-of-period	4,304	4,456
Net Unrealized Gain on Available-for-Sale Securities		
Balance at beginning-of-year	86	493
Change during the period	(1,990)	(437)
Balance at end-of-period	(1,904)	56
Net Unrealized Gain on Derivative Instruments		
Balance at beginning-of-year	53	39
Change during the period	1	(7)
Balance at end-of-period	54	32
Foreign Currency Translation Adjustment		
Balance at beginning-of-year	175	165
Change during the period	(54)	29

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Balance at end-of-period	121	194
Funded Status of Employee Benefit Plans		
Balance at beginning-of-year	(89)	(84)
Change during the period	8	(1)
Balance at end-of-period	(81)	(85)
Total stockholders' equity at end-of-period	\$ 9,500	\$ 11,963

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	For the Nine Months Ended September 30, 2008 2007 (Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 562	\$ 1,102
Adjustments to reconcile net income 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	(838)	(907)
Trading securities purchases, sales and maturities, net	141	319
Change in premiums and fees receivable	47	1
Change in accrued investment income	(78)	(50)
Change in future contract benefits	159	113
Change in other contract holder funds	548	1,033
Change in funds withheld reinsurance liability and reinsurance recoverables	(57)	(125)
Change in federal income tax accruals	(228)	358
Realized loss	347	24
Loss on disposal of discontinued operations	13	
Impairment of intangibles	175	
Amortization of deferred gain on business sold through reinsurance	(57)	(65)
Stock-based compensation expense	23	39
Other	54	288
Net adjustments	249	1,028
Net cash provided by operating activities	811	2,130
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(5,578)	(10,740)
Sales of available-for-sale securities	1,803	6,456
Maturities of available-for-sale securities	2,978	3,162
Purchases of other investments	(1,848)	(1,849)
Sales or maturities of other investments	1,383	1,617
Increase (decrease) in payables for collateral under securities loaned and derivatives	533	(184)
Proceeds from sale of subsidiaries/businesses and disposal of discontinued operations	645	
Other	(90)	(75)
Net cash used in investing activities	(174)	(1,613)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(285)	(653)
Issuance of long-term debt	450	1,050
Issuance (decrease) in commercial paper	(145)	226
Deposits of fixed account values, including the fixed portion of variable	7,366	7,030
Withdrawals of fixed account values, including the fixed portion of variable	(4,373)	(5,805)
Transfers to and from separate accounts, net	(1,838)	(1,732)
Payment of funding agreements	(550)	
Common stock issued for benefit plans and excess tax benefits	32	81
Repurchase of common stock	(476)	(686)

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Dividends paid to stockholders	(323)	(323)
Net cash used in financing activities	(142)	(812)
Net increase (decrease) in cash and invested cash	495	(295)
Cash and invested cash at beginning-of-year	1,665	1,621
Cash and invested cash at end-of-period	\$ 2,160	\$ 1,326

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 and investment management businesses through six business segments, see Note 17. 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 insurance, term life insurance, mutual funds and managed accounts.

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, 2007 (2007 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 three and nine month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. All material intercompany accounts and transactions have been eliminated in consolidation.

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.

We have reclassified the results of certain derivatives and embedded derivatives to realized loss, which were previously reported within insurance fees, net investment income, interest credited or benefits. The associated amortization expense of deferred acquisition costs (DAC) and value of business acquired (VOBA) (previously reported within underwriting, acquisition, insurance and other expenses), deferred sales inducements (DSI) (previously reported within interest credited), deferred front-end loads (DFEL) (previously reported within insurance fees) and changes in future contract benefits (previously reported within benefits) have also been reclassified to realized loss.

The detail of the reclassifications from what was previously reported in prior period financial statements (in millions) was as follows:

	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2007
Realized loss, as previously reported	\$ (37)	\$ (15)
Effect of reclassifications to:		
Insurance fees	16	47
Net investment income	5	41
Interest credited	(15)	(44)
Benefits	(55)	(57)
Underwriting, acquisition, insurance and other expenses	21	4

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Realized loss, as adjusted	\$	(65)	\$	(24)
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2. New Accounting Standards

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 157 Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement and enhances disclosures about fair value instruments. SFAS 157 retains the exchange price notion, but clarifies that 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). Fair value measurement 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 the reporting entity's own credit risk. SFAS 157 establishes a three-level fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. 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. 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.

We have certain guaranteed benefit features within our annuity products that, prior to January 1, 2008, were recorded using fair value pricing. These benefits will continue to be measured on a fair value basis with the adoption of SFAS 157, utilizing Level 3 inputs and some Level 2 inputs, which are reflective of the hypothetical market participant perspective for fair value measurement, including liquidity assumptions and assumptions regarding the Company's own credit or non-performance risk. In addition, SFAS 157 expands the disclosure requirements for annual and interim reporting to focus on the inputs used to measure fair value, including those measurements using significant unobservable inputs and the effects of the measurements on earnings. See Note 16 for additional information.

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We adopted SFAS 157 effective January 1, 2008, by recording increases (decreases) to the following categories (in millions) on our consolidated financial statements:

Assets	
DAC	\$ 13
VOBA	(8)
Other assets DSI	2
Total assets	\$ 7
Liabilities	
Future Contract Benefits:	
Remaining guaranteed interest and similar contracts	\$ (20)
Embedded derivative instruments living benefits liabilities	48
DFEL	3
Other liabilities income tax liabilities	(8)
Total liabilities	\$ 23
Revenues	
Realized loss	\$ (24)
Federal income tax benefit	(8)
Loss from continuing operations	\$ (16)

The impact for the first quarter adoption of SFAS 157 to basic and diluted per share amounts was a decrease of \$0.06.

FASB Staff Position No. FAS 157-2 Effective Date of FASB Statement No. 157

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 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). Accordingly, we did not apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities within the scope of FSP 157-2. Examples of items to which the deferral is applicable include, but are not limited to:

Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods;

Reporting units measured at fair value in the goodwill impairment test under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), and indefinite-lived intangible assets measured at fair value for impairment assessment under SFAS 142;

Nonfinancial long-lived assets measured at fair value for an impairment assessment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ;

Asset retirement obligations initially measured at fair value under SFAS No. 143, Accounting for Asset Retirement Obligations ; and

Nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

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FASB Staff Position No. FAS 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an illustrative example of key considerations to analyze in determining fair value of a financial asset when the market for the asset is not active. During times when there is little market activity for a financial asset, the objective of fair value measurement remains the same, that is, to value the asset at the price that would be received by the holder of the financial asset in an orderly transaction (exit price) that is not a forced liquidation or distressed sale at the measurement date. Determining fair value of a financial asset during a period of market inactivity may require the use of significant judgment and an evaluation of the facts and circumstances to determine if transactions for a financial asset represent a forced liquidation or distressed sale. An entity's own assumptions regarding future cash flows and risk-adjusted discount rates for financial assets are acceptable when relevant observable inputs are not available. FSP 157-3 was effective on October 10, 2008, and for all prior periods for which financial statements have not been issued. Any changes in valuation techniques resulting from the adoption of FSP 157-3 shall be accounted for as a change in accounting estimated in accordance with SFAS No. 154, *Accounting Changes and Error Corrections*. We adopted the guidance

in FSP 157-3 in our financial statements for the reporting period ending September 30, 2008. The adoption did not have a material impact on our consolidated financial condition or results of operations.

SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows an entity to make an irrevocable election, on specific election dates, to measure eligible items at fair value. The election to measure an item at fair value may be determined on an instrument by instrument basis, with certain exceptions. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date, and any upfront costs and fees related to the item will be recognized in earnings as incurred. In addition, the presentation and disclosure requirements of SFAS 159 are designed to assist in the comparison between entities that select different measurement attributes for similar types of assets and liabilities. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157. At the effective date, the fair value option may be elected for eligible items that exist on that date. Effective January 1, 2008, we elected not to adopt the fair value option for any financial assets or liabilities that existed as of that date.

Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB Board ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). EITF 06-10 requires an employer to recognize a liability related to a collateral assignment split-dollar life insurance arrangement in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, if the employer has agreed to maintain a life insurance policy during the employee's retirement. In addition, based on the split-dollar arrangement, an asset should be recognized by the employer for the estimated future cash flows to which the employer is entitled. The adoption of EITF 06-10 can be recognized either as a change in accounting principle through a cumulative-effect adjustment to retained earnings or through retrospective application to all prior periods. The consensus is effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years.

We maintain collateral assignment split-dollar life insurance arrangements related to frozen policies that are within the scope of EITF 06-10. Effective January 1, 2008, we adopted EITF 06-10 by recording a \$4 million cumulative effect adjustment to the opening balance of retained earnings, offset by an increase to our liability for postretirement benefits. We also recorded notes receivable for the amounts due to us from participants under the split-dollar arrangements. The recording of the notes receivable did not have a material effect on our consolidated financial condition or results of operations.

Derivative Implementation Group Statement 133 Implementation Issue No. E23 Issues Involving the Application of the Shortcut Method Under Paragraph 68

In December 2007, the FASB issued Derivative Implementation Group (DIG) Statement 133 Implementation Issue No. E23, Issues Involving the Application of the Shortcut Method under Paragraph 68 (DIG E23), which gives clarification to the application of the shortcut method of accounting for qualifying fair value hedging relationships involving an interest-bearing financial instrument and/or an interest rate swap, originally outlined in paragraph 68 in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). We adopted DIG E23 effective January 1, 2008, for hedging relationships designated on or after that date. The adoption did not have a material impact on our consolidated financial condition or results of operations.

Future Adoption of New Accounting Standards

SFAS No. 141(R) Business Combinations

In December 2007, the FASB issued SFAS No. 141(revised 2007), Business Combinations (SFAS 141(R)), which is a revision of SFAS No. 141 Business Combinations (SFAS 141). SFAS 141(R) retains the fundamental requirements of SFAS 141, but establishes 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. The revised statement requires, among other things, that assets acquired, liabilities assumed and any noncontrolling interest in the acquiree shall be measured at their acquisition-date fair values. For business combinations completed upon adoption of SFAS 141(R), goodwill will be measured as the excess of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree, in excess of the fair values of the identifiable net assets acquired. Any contingent consideration shall be recognized at the acquisition-date fair value, which improves the accuracy of the goodwill measurement. Under SFAS 141(R), contractual pre-acquisition contingencies will be recognized at their acquisition-date fair values and non-contractual pre-acquisition contingencies will be recognized at their acquisition date fair values if it is more likely than not that the contingency gives rise to an asset or liability. Deferred recognition of pre-acquisition contingencies will no longer be permitted. Acquisition costs will be expensed in the period the costs are incurred, rather than included in the cost of the acquiree, and disclosure requirements will be

enhanced to provide users with information to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after December 15, 2008, with earlier adoption prohibited. We will adopt SFAS 141(R) for acquisitions occurring after January 1, 2009.

SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (SFAS 160), which aims to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing 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. The ownership interests in subsidiaries held by parties other than the parent shall be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the noncontrolling interest must be clearly identified and presented on the face of the Consolidated Statements of Income. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary must be accounted for consistently as equity transactions. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary, sells some of its ownership interests in its subsidiary, the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Entities must provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We will adopt SFAS 160 effective January 1, 2009, and do not expect the adoption will have a material impact on our consolidated financial condition and results of operations.

FSP FAS No. 140-3 Accounting for Transfers of Financial Assets and Repurchase Financing Transactions

In February 2008, the FASB issued FSP FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP 140-3), regarding the criteria for a repurchase financing to be considered a linked transaction under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. A repurchase financing is a transaction where the buyer (transferee) of a financial asset obtains financing from the seller (transferor) and transfers the financial asset back to the seller as collateral until the financing is repaid. Under FSP 140-3, the transferor and the transferee shall not separately account for the transfer of a financial asset and a related repurchase financing unless the two transactions have a valid and distinct business or economic purpose for being entered into separately and the repurchase financing does not result in the initial transferor regaining control over the financial asset. In addition, an initial transfer of a financial asset and a repurchase financing entered into contemporaneously with, or in contemplation of, one another, must meet the criteria identified in FSP 140-3 in order to receive separate accounting treatment. FSP 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. FSP 140-3 will be applied prospectively to initial transfers and repurchase financings executed on or after the beginning of the fiscal year in which FSP 140-3 is initially applied. Early application is not permitted. We will adopt FSP 140-3 effective January 1, 2009, and do not expect the adoption will have a material impact on our consolidated financial condition and results of operations.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161), which amends and expands current qualitative and quantitative disclosure requirements for derivative instruments and hedging activities. Enhanced disclosures will include: how and why we use derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133; and how derivative instruments and related hedged items affect our financial position, financial performance and cash flows. Quantitative disclosures will be enhanced by requiring a tabular format by primary underlying risk and accounting designation for the fair value amount and location of derivative instruments in the financial statements and the amount and location of gains and losses in the financial statements for derivative instruments and related hedged items. The tabular disclosures should improve transparency of derivative positions existing at the end of the reporting period and the effect of using derivatives during the reporting period. SFAS 161 also requires the disclosure of credit-risk-related contingent features in derivative instruments and cross-referencing within the notes to the consolidated financial statements to assist users in locating information about derivative instruments. The amended and expanded disclosure requirements apply to all derivative instruments within the scope of SFAS 133, non-derivative hedging instruments and all hedged items designated and qualifying as hedges under SFAS 133. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will adopt SFAS 161 effective January 1, 2009, at which time we will include these required enhanced disclosures related to derivative instruments and hedging activities in our financial statements.

FSP FAS No. 142-3 Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3), which applies to recognized intangible assets accounted for under the guidance in SFAS 142. When developing renewal or extension assumptions in determining the useful life of recognized intangible assets, FSP 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements. Absent the historical experience, an entity should use the assumptions a market participant would make when renewing and extending the intangible asset consistent with the highest and best use of the asset by market participants. In addition, FSP 142-3 requires financial statement disclosure regarding the extent to which expected future cash flows associated with the asset are affected by an entity's intent and/or ability to renew or extend an arrangement. FSP 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008, with early adoption prohibited. FSP 142-3 should be applied prospectively to determine the useful life of a recognized intangible asset acquired after the effective date. In addition, FSP 142-3 requires prospective application of the disclosure requirements to all intangible assets recognized as of, and subsequent to, the effective date. We will adopt FSP 142-3 on January 1, 2009, and do not expect the adoption will have a material impact on our consolidated financial condition and results of operations.

SFAS No. 163 Accounting for Financial Guarantee Insurance Contracts an Interpretation of FASB Statement No. 60

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* an interpretation of FASB Statement No. 60 (SFAS 163), which applies to financial guarantee insurance and reinsurance contracts not accounted for as derivative instruments, and issued by entities within the scope of SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*. SFAS 163 changes current accounting practice related to the recognition and measurement of premium revenue and claim liabilities such that premium revenue recognition is linked to the amount of insurance protection and the period in which it is provided, and a claim liability is recognized when it is expected that a claim loss will exceed the unearned premium revenue. In addition, SFAS 163 expands disclosure requirements to include information related to the premium revenue and claim liabilities, as well as information related to the risk-management activities used to evaluate credit deterioration in insured financial obligations. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years; early application is not permitted. However, the disclosure requirements related to risk-management activities are effective in the first period (including interim periods) beginning after May 2008. Since we do not hold a significant amount of financial guarantee insurance and reinsurance contracts, no additional disclosures have been made and we expect the adoption of SFAS 163 will not be material to our consolidated financial condition or results of operations.

EITF No. 07-5 Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock

In June 2008, the FASB issued EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 provides guidance to determine whether an instrument (or an embedded feature) is indexed to an entity's own stock when evaluating the instrument as a derivative under SFAS 133. An instrument that is both indexed to an entity's own stock and classified in stockholders' equity in the entity's statement of financial position is not considered a derivative for the purposes of applying the guidance in SFAS 133. EITF 07-5 provides a two-step process to determine whether an equity-linked instrument (or embedded feature) is indexed to its own stock first by evaluating the instrument's contingent exercise provisions, if any, and second, by evaluating the instrument's settlement provisions. EITF 07-5 is applicable to outstanding instruments as of the beginning of the fiscal year in which the issue is adopted and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt EITF 07-5 on January 1, 2009, and do not expect the adoption will be material to our consolidated financial condition and results of operations.

FSP FAS No. 133-1 and FIN 45-4 Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161

In September 2008, the FASB issued FSP FAS No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (FSP 133-1). FSP 133-1 amends the disclosure requirements of SFAS 133 to require the seller of credit derivatives, including hybrid financial instruments with embedded credit derivatives, to disclose additional information regarding, among other things, the nature of the credit derivative, information regarding the facts and circumstances that may require performance or payment under the credit derivative, and the nature of any recourse provisions the seller can use for recovery of payments made under the credit derivative. In addition, FSP 133-1 amends the disclosure requirements in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) to require additional disclosure about the payment/performance risk of a guarantee. Finally, FSP 133-1 clarifies the intent of the FASB regarding the effective date of SFAS 161. The provisions of FSP 133-1 related to SFAS 133 and FIN 45 are effective for annual and interim reporting periods ending after November 15, 2008, with comparative disclosures required only for those periods ending subsequent to initial adoption. The clarification of the effective date of SFAS 161 was effective upon the issuance of FSP 133-1, and will not impact the effective date of SFAS 161 in our financial statements.

We will adopt FSP 133-1 on December 31, 2008, at which time we will include these required enhanced disclosures related to credit derivatives and guarantees in the notes to the consolidated financial statements.

3. Dispositions

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. Accordingly, in the periods prior to the closings, the assets and liabilities of these businesses were reclassified as held-for-sale and were 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, 2008	As of December 31, 2007
Goodwill	\$	\$ 340
Specifically identifiable intangible assets		266
Other		146
Total assets held-for-sale	\$	\$ 752
Liabilities held-for-sale	\$	\$ 354

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

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2007	
Discontinued Operations Before Disposal				
Media revenues, net of agency commissions	\$	\$ 33	\$ 22	\$ 104
Income from discontinued operations before disposal, before federal income taxes	\$	\$ 10	\$ 8	\$ 32
Federal income taxes		3	3	11
Income from discontinued operations before disposal		7	5	21
Disposal				
Loss on disposal, before federal income taxes			(13)	
Federal income tax expense (benefit)	1		(3)	
Loss on disposal	(1)		(10)	
Income (loss) from discontinued operations	\$ (1)	\$ 7	\$ (5)	\$ 21

Fixed Income Investment Management Business

During the fourth quarter of 2007, we sold certain institutional taxable fixed income business to an unaffiliated investment management company. Investment Management transferred \$12.3 billion of assets under management as part of this transaction. Based upon the assets

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transferred as of October 31, 2007, the purchase price is expected to be no more than \$49 million.

During the fourth quarter of 2007, we received \$25 million of the purchase price, with additional scheduled payments over the next three years. During 2007, we recorded an after-tax loss of \$2 million on our Consolidated Statements of Income as a result of the goodwill we attributed to this business. During the three and nine months ended September 30, 2008, we recorded an after-tax gain of \$1 million and \$4 million, respectively, on our Consolidated Statements of Income in realized loss related to this transaction.

4. Investments**Available-for-Sale Securities**

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale securities (in millions) were as follows:

	As of September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Corporate bonds	\$ 43,461	\$ 425	\$ 3,866	\$ 40,020
U.S. Government bonds	200	17		217
Foreign government bonds	784	30	28	786
Mortgage-backed securities:				
Mortgage pass-through securities	2,021	25	27	2,019
Collateralized mortgage obligations	6,896	46	618	6,324
Commercial mortgage-backed securities	2,588	10	279	2,319
State and municipal bonds	130	2	2	130
Redeemable preferred stocks	131	1	16	116
Total fixed maturity securities	56,211	556	4,836	51,931
Equity securities	612	9	128	493
Total available-for-sale securities	\$ 56,823	\$ 565	\$ 4,964	\$ 52,424

	As of December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Corporate bonds	\$ 43,973	\$ 1,120	\$ 945	\$ 44,148
U.S. Government bonds	205	17		222
Foreign government bonds	979	67	9	1,037
Mortgage-backed securities:				
Mortgage pass-through securities	1,226	24	4	1,246
Collateralized mortgage obligations	6,721	78	130	6,669
Commercial mortgage-backed securities	2,711	49	70	2,690
State and municipal bonds	151	2		153
Redeemable preferred stocks	103	9	1	111
Total fixed maturity securities	56,069	1,366	1,159	56,276
Equity securities	548	13	43	518
Total available-for-sale securities	\$ 56,617	\$ 1,379	\$ 1,202	\$ 56,794

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

	As of September 30, 2008	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,992	\$ 1,984
Due after one year through five years	12,940	12,632
Due after five years through ten years	15,018	13,593
Due after ten years	14,756	13,060

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Subtotal	44,706	41,269
Mortgage-backed securities	11,505	10,662
Total fixed maturity available-for-sale securities	\$ 56,211	\$ 51,931

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

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The fair value and gross unrealized losses of available-for-sale 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, 2008					
	Less Than Or Equal to Twelve Months Gross		Greater Than Twelve Months Gross		Total Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	\$ 22,046	\$ 1,943	\$ 6,384	\$ 1,923	\$ 28,430	\$ 3,866
U.S. Government bonds	12				12	
Foreign government bonds	236	11	95	17	331	28
Mortgage-backed securities:						
Mortgage pass-through securities	521	16	62	11	583	27
Collateralized mortgage obligations	2,425	231	930	387	3,355	618
Commercial mortgage-backed securities	1,222	81	652	198	1,874	279
State and municipal bonds	43	2	4		47	2
Redeemable preferred stocks	78	16			78	16
Total fixed maturity securities	26,583	2,300	8,127	2,536	34,710	4,836
Equity securities	420	126	12	2	432	128
Total available-for-sale securities	\$ 27,003	\$ 2,426	\$ 8,139	\$ 2,538	\$ 35,142	\$ 4,964
Total number of securities in an unrealized loss position						3,911

	As of December 31, 2007					
	Less Than Or Equal to Twelve Months Gross		Greater Than Twelve Months Gross		Total Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	\$ 11,540	\$ 679	\$ 4,467	\$ 266	\$ 16,007	\$ 945
U.S. Government bonds			3		3	
Foreign government bonds	95	4	51	4	146	8
Mortgage-backed securities:						
Mortgage pass-through securities	32	1	193	4	225	5
Collateralized mortgage obligations	1,742	101	1,116	29	2,858	130
Commercial mortgage-backed securities	520	47	562	23	1,082	70
State and municipal bonds	29		17		46	
Redeemable preferred stocks	13	1			13	1
Total fixed maturity securities	13,971	833	6,409	326	20,380	1,159
Equity securities	402	42	8	1	410	43
Total available-for-sale securities	\$ 14,373	\$ 875	\$ 6,417	\$ 327	\$ 20,790	\$ 1,202
Total number of securities in an unrealized loss position						2,441

We had perpetual preferred securities in unrealized loss positions as of September 30, 2008, and December 31, 2007, which are included in the corporate bonds and redeemable preferred stock line items above. As of September 30, 2008, and December 31, 2007, our amortized cost of perpetual preferred securities reported in corporate bonds was \$1.3 billion and \$1.4 billion, respectively, and the fair value was \$1.1 billion and \$1.3 billion, respectively.

The fair value, gross unrealized losses (in millions) and number of available-for-sale securities where the fair value had declined below amortized cost by greater than 20%, were as follows:

	As of September 30, 2008		
	Fair Value	Gross Unrealized Losses	Number of Securities
Less than six months	\$ 640	\$ 302	131
Six months or greater, but less than nine months	711	299	108
Nine months or greater, but less than twelve months	667	300	73
Twelve months or greater	2,733	1,827	490
Total available-for-sale securities	\$ 4,751	\$ 2,728	802

	As of December 31, 2007		
	Fair Value	Gross Unrealized Losses	Number of Securities
Less than six months	\$ 136	\$ 49	22
Six months or greater, but less than nine months	427	138	32
Nine months or greater, but less than twelve months	364	110	17
Twelve months or greater	183	81	60
Total available-for-sale securities	\$ 1,110	\$ 378	131

As described more fully in Note 1 of our 2007 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments. Based upon this review, the cause of the \$3.8 billion increase in our gross available-for-sale securities unrealized losses for the nine months ended September 30, 2008, was attributable primarily to the combination of reduced liquidity in all market segments and deterioration in credit fundamentals. We believe that the securities in an unrealized loss position as of September 30, 2008, were not other-than-temporarily impaired due to our ability and intent to hold for a period of time sufficient for recovery.

Trading Securities

Trading securities at fair value retained in connection with modified coinsurance and coinsurance with funds withheld reinsurance arrangements (in millions) consisted of the following:

	As of September 30, 2008	As of December 31, 2007
Corporate bonds	\$ 1,690	\$ 1,999
U.S. Government bonds	383	367
Foreign government bonds	39	46
Mortgage-backed securities:		
Mortgage pass-through securities	32	22
Collateralized mortgage obligations	129	160
Commercial mortgage-backed securities	92	107
State and municipal bonds	17	19
Redeemable preferred stocks	9	8
Total fixed maturity securities	2,391	2,728
Equity securities	2	2
Total trading securities	\$ 2,393	\$ 2,730

The portion of trading losses that relate to trading securities still held as of September 30, 2008, was \$187 million for the third quarter of 2008.

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the United States with the largest concentrations in California and Texas, which accounted for approximately 29% of mortgage loans as of September 30, 2008.

Net Investment Income

The major categories of net investment income (in millions) were as follows:

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2007	
Fixed maturity available-for-sale securities	\$ 856	\$ 856	\$ 2,569	\$ 2,543
Equity available-for-sale securities	7	10	24	31
Trading securities	41	44	126	134
Mortgage loans on real estate	121	123	371	385
Real estate	6	16	20	43
Policy loans	46	43	134	130
Invested cash	12	14	46	52
Alternative investments	27		36	90
Other investments	2	5	(1)	17
Investment income	1,118	1,111	3,325	3,425
Investment expense	(29)	(49)	(94)	(140)
Net investment income	\$ 1,089	\$ 1,062	\$ 3,231	\$ 3,285

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, 2008		For the Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Fixed maturity available-for-sale securities:				
Gross gains	\$ 27	\$ 26	\$ 58	\$ 108
Gross losses	(380)	(44)	(618)	(97)
Equity available-for-sale securities:				
Gross gains	1	1	4	7
Gross losses	(26)		(33)	
Gain (loss) on other investments	(1)	6	27	7
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	95	(14)	144	(36)
Total realized loss on investments, excluding trading securities	(284)	(25)	(418)	(11)
Loss on certain derivative instruments	(30)	(11)	(62)	(7)
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds		1		
Total realized loss on investments and certain derivative instruments, excluding trading securities	\$ (314)	\$ (35)	\$ (480)	\$ (18)
Write-downs for other-than-temporary impairments included in realized loss on available-for-sale securities above	\$ (312)	\$ (34)	\$ (523)	\$ (68)

See Note 12 for a comprehensive listing of realized loss.

Securities Lending

The carrying values of securities pledged under securities lending agreements were \$463 million and \$655 million as of September 30, 2008, and December 31, 2007, respectively. The fair values of these securities were \$435 million and \$634 million as of September 30, 2008, and December 31, 2007, respectively.

Reverse Repurchase Agreements

The carrying values of securities pledged under reverse repurchase agreements were \$280 million and \$480 million as of September 30, 2008, and December 31, 2007, respectively. The fair values of these securities were \$293 million and \$502 million as of September 30, 2008, and December 31, 2007, respectively.

Investment Commitments

As of September 30, 2008, our investment commitments for fixed maturity securities (primarily private placements), limited partnerships, real estate and mortgage loans on real estate were \$1.1 billion, which includes \$314 million of standby commitments to purchase real estate upon completion and leasing.

Concentrations of Financial Instruments

As of September 30, 2008, and December 31, 2007, we did not have a significant concentration of financial instruments in a single investee, industry or geographic region of the U.S.

Credit-Linked Notes

As of September 30, 2008, and December 31, 2007, other contract holder funds on our Consolidated Balance Sheets included \$600 million and \$1.2 billion outstanding in funding agreements of the Lincoln National Life Insurance Company (LNL), respectively. LNL invested the proceeds of \$850 million received for issuing three funding agreements in 2006 and 2007 into three separate credit-linked notes originated by third party companies. One of the credit linked notes totaling \$250 million was paid off at par in September and as a result, the related structure, including the \$250 million funding agreement, was terminated. The two remaining credit-linked notes are asset-backed securities, classified as corporate bonds in the tables above and are reported as fixed maturity securities on our Consolidated Balance Sheets. An additional \$300 million funding agreement was assumed as a result of the merger of Jefferson-Pilot, but was not invested into credit-linked notes. This \$300 million funding agreement matured on June 2, 2008.

We earn a spread between the coupon received on the credit-linked notes and the interest credited on the funding agreement. Our credit-linked notes were created using a trust that combines highly rated assets with credit default swaps to produce a multi-class structured security. Our affiliate, Delaware Investments, actively manages the credit default swaps in the underlying portfolios. The high quality asset in these transactions is a AAA-rated asset-backed security secured by a pool of credit card receivables.

Consistent with other debt market instruments, we are exposed to credit losses within the structure of the credit-linked notes, 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 credit-linked note, which requires the subordinated classes of the investment pool to absorb all of the initial credit losses. LNL owns the mezzanine tranche of these investments. To date, there has been one default in the underlying collateral pool of the \$400 million credit-linked note and two defaults in the underlying collateral pool of the \$200 million credit-linked note. There has been no event of default on the credit-linked notes themselves, and we feel the remaining subordination is sufficient to absorb future initial credit losses. Similar to other debt market instruments, our maximum principal loss is limited to our original investment of \$600 million as of September 30, 2008.

As in the general markets, spreads on these transactions have widened, causing unrealized losses. We had unrealized losses of \$421 million on the \$600 million in credit-linked notes as of September 30, 2008 and \$190 million on the \$850 million in credit-linked notes as of December 31, 2007. As described more fully in Note 1 of our 2007 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments. Based upon this review, we believe that these securities were not other-than-temporarily impaired as of September 30, 2008, and December 31, 2007.

The following summarizes information regarding our investments in these securities (dollars in millions):

	Amount and Date of Issuance	
	\$400	\$200
	December 2006	April 2007
Amount of subordination ⁽¹⁾	\$ 1,944	\$ 296
Maturity	12/20/16	3/20/17
Current rating of tranche ⁽¹⁾	A+	Baa2
Number of entities ⁽¹⁾	124	98
Number of countries ⁽¹⁾	20	21

⁽¹⁾ As of September 30, 2008

5. 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 the estimates of future gross profits used in the prior quarter and the emergence of actual and updated estimates of future gross profits 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 and rider utilization. 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 emerging experience period-over-period, while prospective unlocking is driven by changes in assumptions or projection models related to estimated future gross profits.

Changes in DAC (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2008	2007
Balance at beginning-of-year	\$ 6,510	\$ 5,116
Cumulative effect of adoption of Statement of Position (SOP) 05-1 (SOP 05-1)		(31)
Deferrals	1,354	1,469
DAC and VOBA amortization, net of interest:		
Prospective unlocking assumption changes	24	35
Prospective unlocking model refinements	44	(56)
Retrospective unlocking	(69)	46
Other amortization, net of interest	(585)	(600)
Adjustment related to realized gains on available-for-sale securities and derivatives	(16)	(10)
Adjustment related to unrealized losses on available-for-sale securities and derivatives	715	184
Foreign currency translation adjustment	(51)	23
Balance at end-of-period	\$ 7,926	\$ 6,176

Changes in VOBA (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2008	2007
Balance at beginning-of-year	\$ 3,070	\$ 3,304
Cumulative effect of adoption of SOP 05-1		(35)
Business acquired		14
Deferrals	32	35
DAC and VOBA amortization, net of interest:		
Prospective unlocking assumption changes	26	14
Prospective unlocking model refinements	(15)	(7)
Retrospective unlocking	(21)	16
Other amortization, net of interest	(288)	(348)
Accretion of interest	100	108
Adjustment related to realized (gains) losses on available-for-sale securities and derivatives	53	(6)
Adjustment related to unrealized losses on available-for-sale securities and derivatives	796	53
Foreign currency translation adjustment	(27)	13
Balance at end-of-period	\$ 3,726	\$ 3,161

Changes in DSI (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2008	2007
Balance at beginning-of-year	\$ 279	\$ 194
Cumulative effect of adoption of SOP 05-1		(3)
Deferrals	77	81
DAC and VOBA amortization, net of interest:		
Prospective unlocking assumption changes		2
Prospective unlocking model refinements		(1)
Retrospective unlocking	(2)	2
Other amortization, net of interest	(21)	(25)
Adjustment related to realized gains on available-for-sale securities and derivatives	(5)	(1)
Balance at end-of-period	\$ 328	\$ 249

Changes in DFEL (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2008	2007
Balance at beginning-of-year	\$ 1,183	\$ 977
Cumulative effect of adoption of SOP 05-1		(2)
Deferrals	316	300
DAC and VOBA amortization, net of interest:		
Prospective unlocking assumption changes	5	4
Prospective unlocking model refinements	25	(34)
Retrospective unlocking	(29)	10
Other amortization, net of interest	(135)	(144)
Adjustment related to realized (gains) losses on available-for-sale securities and derivatives	(2)	
Foreign currency translation adjustment	(38)	17
Balance at end-of-period	\$ 1,325	\$ 1,128

6. Goodwill and Specifically Identifiable Intangibles

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

	For the Nine Months Ended September 30, 2008				
	Balance At Beginning- of-Year	Purchase Accounting Adjustments	Impairment	Foreign Currency Translation Adjustment	Balance At End- of-Period
Retirement Solutions:					
Annuities	\$ 1,046	\$ (6)	\$	\$	\$ 1,040
Defined Contribution	20				20
Insurance Solutions:					
Life Insurance	2,201	(11)			2,190
Group Protection	274				274
Investment Management	247	1			248
Lincoln UK	17			(2)	15
Other Operations	339	(2)	(83)		254
Total goodwill	\$ 4,144	\$ (18)	\$ (83)	\$ (2)	\$ 4,041

The purchase accounting adjustments above relate to income tax deductions recognized when stock options attributable to mergers were exercised or the release of unrecognized tax benefits acquired through mergers.

As a result of declines in current and forecasted advertising revenue for the entire radio market, we updated our intangible impairment review in the second quarter of 2008, which was outside of our annual process normally completed as of October 1 each year. This impairment test showed the implied fair value of our remaining radio properties were lower than their carrying amounts, therefore we recorded non-cash impairments of goodwill (set forth above) and specifically identifiable intangible (set forth below), based upon the guidance of SFAS 142. The impairment of goodwill did not have any offsetting tax benefit; therefore, our effective tax rate for the nine months ended September 30, 2008, was elevated over the corresponding period in 2007.

The gross carrying amounts and accumulated amortization (in millions) for each major specifically identifiable intangible asset class by reportable segment were as follows:

	As of September 30, 2008		As of December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Insurance Solutions Life Insurance:				
Sales force	\$ 100	\$ 10	\$ 100	\$ 7
Retirement Solutions Defined Contribution:				
Mutual fund contract rights ⁽¹⁾	3		3	
Investment Management:				
Client lists	92	92	92	90
Other ⁽¹⁾	5		3	
Other Operations:				
FCC licenses ⁽¹⁾⁽²⁾	292		384	
Other	4	3	4	3
Total	\$ 496	\$ 105	\$ 586	\$ 100

⁽¹⁾ No amortization recorded as the intangible asset has indefinite life.

⁽²⁾ We recorded FCC licenses impairment of \$90 million during the second quarter of 2008, as discussed above. See Note 3 for goodwill and specifically identifiable intangibles included within discontinued operations.

7. 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), guaranteed withdrawal benefit (GWB) and guaranteed income benefit (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).

These guarantees are considered embedded derivatives and are recorded in future contract benefits on our Consolidated Balance Sheets at fair value under SFAS 133 and SFAS 157. Effective January 1, 2008, we adopted SFAS 157, which affected the valuation of our embedded derivatives. See Note 2 of this report for details on the adoption of SFAS 157. 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 fair value of the embedded derivatives. The net impact of these changes is reported as guaranteed living benefit (GLB), which is a component of realized loss discussed in Note 12.

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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, 2008	As of December 31, 2007
Return of Net Deposits		
Variable annuity account value	\$ 39,646	\$ 44,833
Net amount at risk ⁽¹⁾	2,503	93
Average attained age of contract holders	56 years	55 years
Minimum Return		
Variable annuity account value	\$ 256	\$ 355
Net amount at risk ⁽¹⁾	72	25
Average attained age of contract holders	68 years	68 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Variable annuity account value	\$ 20,794	\$ 25,537
Net amount at risk ⁽¹⁾	4,821	359
Average attained age of contract holders	65 years	64 years

⁽¹⁾ Represents the amount of death benefit in excess of the current account balance at the end-of-period. The increase in net amount of risk when comparing September 30, 2008, to December 31, 2007, was attributed primarily to the decline in equity markets and associated reduction in the account values.

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, 2008		2007
Balance at beginning-of-year	\$ 38	\$ 23	
Cumulative effect of adoption of SOP 05-1		(4)	
Changes in reserves		87	17
Benefits paid		(22)	(4)
Balance at end-of-period	\$ 103	\$ 32	

The changes to the benefit reserves amounts above are reflected in benefits on our Consolidated Statements of Income.

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

	As of September 30, 2008	As of December 31, 2007
Asset Type		
Domestic equity	\$ 32,578	\$ 44,982
International equity	9,974	8,076
Bonds	9,559	8,034
Money market	4,849	6,545

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Total	\$	56,960	\$	67,637
Percent of total variable annuity separate account values		98%		97%

8. Other Contract Holder Funds

Details of other contract holder funds (in millions) were as follows:

	As of September 30, 2008	As of December 31, 2007
Account values and other contract holder funds	\$ 58,632	\$ 57,698
Deferred front-end loads	1,325	1,183
Contract holder dividends payable	499	524
Premium deposit funds	129	140
Undistributed earnings on participating business	93	95
Total other contract holder funds	\$ 60,678	\$ 59,640

9. Federal Income Taxes

The effective tax rate was 2% and 28% for the three months ended September 30, 2008 and 2007, respectively. The effective tax rate for the nine months ended September 30, 2008 and 2007 was 26% and 29%, respectively. Differences in the effective rates and the U.S. statutory rate of 35% in 2008 were the result of certain tax preferred investment income, separate account dividends-received deduction (DRD), foreign tax credits and other tax preference items. For information about the unfavorable impact to our effective tax rate for the nine months ended September 30, 2008, due from impairment of goodwill, see Note 6.

Federal income tax expense for the third quarter and first nine months of 2008 included a reduction of \$34 million related to favorable adjustments from the 2007 tax return, filed in the third quarter of 2008, primarily relating to the separate account DRD, foreign tax credits and other tax preference items. Federal income tax expense for the third quarter and first nine months of 2007 included a reduction of \$13 million related to favorable adjustments from the 2006 tax return, filed in the third quarter of 2007, relating to the separate account DRD, foreign tax credits and other tax preference items.

Changes to the Internal Revenue Code, administrative rulings or court decisions could increase our effective tax rate. In this regard, on August 16, 2007, the Internal Revenue Service (IRS) issued a revenue ruling that purports, among other things, to modify the calculation of the separate account DRD received by life insurance companies. Subsequently, the IRS issued another revenue ruling that suspended the August 16, 2007, ruling and announced a new regulation project on the issue. The current separate account DRD lowered the effective tax rate by approximately 15% and 5% for the three months ended September 30, 2008 and 2007, respectively, and 9% and 4% for the nine months ended September 30, 2008 and 2007, respectively. The separate account deduction for dividends was relatively flat compared to prior quarters; however, its impact to the effective tax rate was the result of lower pre-tax income for the three months ended September 30, 2008.

We are required to establish a valuation allowance for any gross deferred tax assets that are unlikely to reduce taxes payable in future years tax returns. As of September 30, 2008, we believed that it was more likely than not that all gross deferred tax assets will reduce taxes payable in future years.

As of September 30, 2008, there have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2007. We anticipate a change to our unrecognized tax benefits within the next 12 months in the range of none to \$12 million.

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

In the normal course of business, we are subject to examination by taxing authorities throughout the U.S. and the U.K. At any given time, we may be under examination by state, local or non-U.S. income tax authorities. During the third quarter of 2008, the IRS completed its examination for the tax years 2003 and 2004 resulting in a proposed assessment. We believe a portion of the assessment is inconsistent with existing law and are protesting it through the established IRS appeals process. We do not anticipate that any adjustments that might result from such appeals would be material to our consolidated results of operations or financial condition.

10. Contingencies and Commitments

See Contingencies and Commitments in Note 13 to the consolidated financial statements in our 2007 Form 10-K for a discussion of commitments and contingencies, which information is incorporated herein by reference.

Regulatory and Litigation Matters

Federal and state regulators continue to focus on issues relating to fixed and variable insurance products, including, but not limited to, suitability, replacements and sales to seniors. Like others in the industry, we have received inquiries including requests for information regarding sales to seniors from the Financial Industry Regulatory Authority, and we have responded to these inquiries. We continue to cooperate fully with such authority.

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.

11. Stockholders' Equity and Shares**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,	
	2008	2007	2008	2007
Series A Preferred Stock				
Balance at beginning-of-period	11,662	12,361	11,960	12,706
Conversion into common stock	(100)	(155)	(398)	(500)
Balance at end-of-period	11,562	12,206	11,562	12,206
Common Stock				
Balance at beginning-of-period	256,801,622	271,441,613	264,233,303	275,752,668
Conversion of Series A preferred stock	1,600	2,480	6,368	8,000
Stock compensation ⁽¹⁾	96,454	774,931	775,676	3,610,276
Deferred compensation payable in stock	18,465	35,149	85,544	104,310
Retirement of common stock by repurchase/cancellation of shares	(1,076,508)	(3,096,069)	(9,259,258)	(10,317,150)
Balance at end-of-period	255,841,633	269,158,104	255,841,633	269,158,104

Common stock at end-of-period:

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Assuming conversion of preferred stock	256,026,625	269,353,400	256,026,625	269,353,400
Diluted basis	256,908,832	271,722,491	256,908,832	271,722,491

⁽¹⁾ Amount includes non stock option awards issued, including issuances for benefit plans and stock options exercised.

Earnings Per Share

The income used in the calculation of our diluted earnings per share (EPS) is our income from continuing operations and net income, reduced by minority interest adjustments related to outstanding stock options under the Delaware Investments U.S., Inc. (DIUS) stock option incentive plan of \$1 million for the nine months ended September 30, 2008 and 2007 and less than \$1 million for the three months ended September 30, 2008 and 2007. A reconciliation of the denominator (number of shares) in the calculations of basic and diluted net income and income from discontinued operations per share was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted-average shares, as used in basic calculation	255,865,067	269,395,799	258,192,178	271,597,197
Shares to cover conversion of preferred stock	185,672	196,509	187,101	198,811
Shares to cover non-vested stock	315,939	361,084	276,132	621,802
Average stock options outstanding during the period	6,241,386	12,182,185	8,478,357	13,270,967
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the year)	(6,240,810)	(10,811,052)	(8,392,562)	(11,352,163)
Shares repurchasable from measured but unrecognized stock option expense	(2,279)	(168,157)	(57,531)	(227,169)
Average deferred compensation shares	1,280,279	1,331,319	1,278,454	1,328,341
Weighted-average shares, as used in diluted calculation	257,645,254	272,487,687	259,962,129	275,437,786

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.

12. Realized Loss

Details underlying realized loss (in millions) were as follows:

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2007	
Total realized loss on investments and certain derivative instruments, excluding trading securities ⁽¹⁾	\$ (314)	\$ (35)	\$ (480)	\$ (18)
Gain (loss) on certain reinsurance derivative/trading securities ⁽²⁾	(2)	(1)		3
Indexed annuity net derivative results ⁽³⁾ :				
Gross	8	(13)	19	(2)
Associated amortization expense of DAC, VOBA, DSI and DFEL	(5)	7	(10)	1
Guaranteed living benefits ⁽⁴⁾ :				
Gross	159	(37)	196	(6)
Associated amortization expense of DAC, VOBA, DSI and DFEL	(59)	15	(85)	
Guaranteed death benefits ⁽⁵⁾ :				
Gross	8	(2)	10	(3)
Associated amortization expense of DAC, VOBA, DSI and DFEL	(1)	1	(3)	1
Gain on sale of subsidiaries/businesses	2		6	
Total realized loss	\$ (204)	\$ (65)	\$ (347)	\$ (24)

(1) See Note 4 Realized Loss Related to Investments for detail.

(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 Standard & Poor's (S&P) 500 Index® 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 SFAS 133 and 157. The nine months ended September 30, 2008, includes a \$10 million gain from the initial impact of adopting SFAS 157.

(4) Represents the net difference in the change in fair value of the embedded derivative liabilities 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, includes a \$34 million loss from the initial impact of adopting SFAS 157.

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

13. Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Commissions	\$ 495	\$ 542	\$ 1,486	\$ 1,592
General and administrative expenses	416	438	1,260	1,300
DAC and VOBA deferrals and interest, net of amortization	(245)	(228)	(602)	(712)
Other intangibles amortization	1	3	5	8
Media expenses	14	13	45	43
Taxes, licenses and fees	60	52	170	169
Merger-related expenses	13	30	44	75
Total	\$ 754	\$ 850	\$ 2,408	\$ 2,475

14. Employee Benefit Plans**Pension and Other Postretirement Benefit Plans**

The components of net defined benefit pension plan and postretirement benefit plan expense (in millions) were as follows:

	For the Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
U.S. Plans				
Service cost	\$	\$ 9	\$ 1	\$
Interest cost	15	14	2	2
Expected return on plan assets	(19)	(19)		(1)
Amortization of prior service cost		1		
Recognized net actuarial gain	1			
Net periodic benefit expense (recovery)	\$ (3)	\$ 5	\$ 3	\$ 1
Non-U.S. Plans				
Service cost	\$	\$		
Interest cost	5	5		
Expected return on plan assets	(5)	(5)		
Recognized net actuarial loss	1	1		
Net periodic benefit expense	\$ 1	\$ 1		

	For the Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
U.S. Plans				
Service cost	\$ 1	\$ 25	\$ 2	\$ 2
Interest cost	46	44	6	6
Expected return on plan assets	(58)	(59)	(1)	(2)
Amortization of prior service cost				
Recognized net actuarial gain	3		(1)	(1)
Net periodic benefit expense (recovery)	\$ (8)	\$ 10	\$ 6	\$ 5
Non-U.S. Plans				
Service cost	\$ 2	\$ 1		
Interest cost	15	14		
Expected return on plan assets	(16)	(15)		
Recognized net actuarial loss	2	3		
Net periodic benefit expense	\$ 3	\$ 3		

On May 1, 2007, simultaneous with our announcement of the freeze of our primary defined benefit pension plans, we announced a number of enhancements to our employees' 401(k) plan effective January 1, 2008. Consequently, we are no longer accruing service costs in our U.S. pension plans.

For any additional disclosures and other general information regarding our benefit plans, see Note 16 in our 2007 Form 10-K.

15. Stock-Based Incentive Compensation Plans

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

In the first quarter of 2008, a performance period from 2008-2010 was approved for our executive officers by the Compensation Committee. Executive officers participating in this performance period received one-half of their award in 10-year LNC or DIUS restricted stock units, with the remainder of the award in a combination of either: 100% performance shares or 75% performance shares and 25% cash. 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. Depending on the performance, the actual amount of performance shares could range from zero to 200% of the granted amount. Under the 2008-2010 plan, a total of 1,564,800 LNC stock options were granted; 2,726 DIUS restricted stock units were granted; and 218,308 LNC performance shares were granted during the nine months ended September 30, 2008.

In addition to the stock-based grants noted above, various other LNC stock-based awards were granted in the three and nine months ended September 30, 2008, and were as follows:

	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2008
Awards		
10-year LNC stock options		14,326
Non-employee director stock options		60,489
Non-employee agent stock options	210	197,323
Restricted stock	1,732	165,129
Stock appreciation rights		234,800

16. Financial Instruments Carried at Fair Value

See Fair Value of Financial Instruments in Note 19 to the consolidated financial statements in our 2007 Form 10-K and *SFAS No. 157 Fair Value Measurements* in Note 2 above for discussions of the methodologies and assumptions used to determine the fair value of our financial instruments.

The following table summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the SFAS 157 fair value hierarchy levels described in Note 2. We did not have any assets or liabilities measured at fair value on a non-recurring basis during the third quarter of 2008 or as of September 30, 2008.

	As of September 30, 2008			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Investments:				
Available-for-sale securities:				
Fixed maturities	\$ 238	\$ 47,877	\$ 3,816	\$ 51,931
Equity	52	337	104	493
Trading securities	3	2,293	97	2,393
Derivative instruments		161	1,101	1,262
Cash and invested cash		2,160		2,160
Separate account assets		74,971		74,971
Total assets	\$ 293	\$ 127,799	\$ 5,118	\$ 133,210
Liabilities				
Future Contract Benefits:				
Remaining guaranteed interest and similar contracts	\$	\$	\$ (265)	\$ (265)
Embedded derivative instruments – living benefits liabilities			(564)	(564)
Reinsurance related derivative liability		9		9
Total liabilities	\$	\$ 9	\$ (829)	\$ (820)

Our investment securities are valued using market inputs, including 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 as well as observations of general market movements for those asset classes.

The following tables summarize 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. 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. Certain securities trade in less liquid or illiquid markets with limited or no pricing information, and 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 (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the table 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, 2008

	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:						
Available-for-sale securities:						
Fixed maturities	\$ 4,231	\$ (25)	\$ (206)	\$ (90)	\$ (94)	\$ 3,816
Equity	146	(23)	(38)	19		104
Trading securities	101	(2)		(5)	3	97
Derivative instruments	866	127	6	102		1,101
Future Contract Benefits:						
Remaining guaranteed interest and similar contracts	(298)	23		10		(265)
Embedded derivative instruments living benefits liabilities	(335)	(190)		(39)		(564)
Total, net	\$ 4,711	\$ (90)	\$ (238)	\$ (3)	\$ (91)	\$ 4,289

For the Nine Months Ended September 30, 2008

	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:						
Available-for-sale securities:						
Fixed maturities	\$ 4,420	\$ (44)	\$ (646)	\$ (55)	\$ 141	\$ 3,816
Equity	54	(30)	(6)	86		104
Trading securities	112	(11)		(12)	8	97
Derivative instruments	767	118	13	203		1,101
Future Contract Benefits:						
Remaining guaranteed interest and similar contracts	(389)	34		90		(265)
Embedded derivative instruments living benefits liabilities	(279)	(177)		(108)		(564)
Total, net	\$ 4,685	\$ (110)	\$ (639)	\$ 204	\$ 149	\$ 4,289

(1)

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Transfers in or out of level 3 for available-for-sale and trading securities are displayed at amortized cost at the beginning of the period. For available-for-sale and trading securities, the difference between beginning of period amortized cost and beginning of period fair value was included in other comprehensive income (OCI) and earnings, respectively, in prior periods.

The following tables provide 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 in the table above:

	For the Three Months Ended September 30, 2008				
	(Amortization)	Other- Than- Temporary	Gains (Losses) from Sales, Maturities, Settlements, Calls	Unrealized Holding Gains (Losses)⁽³⁾	Total
	Accretion, Net	Impairment			
Investments:					
Available-for-sale securities:					
Fixed maturities ⁽¹⁾	\$ 1	\$ (29)	\$ 3	\$	\$ (25)
Equity		(24)	1		(23)
Trading securities ⁽¹⁾	1	(2)		(1)	(2)
Derivative instruments ⁽²⁾			(15)	142	127
Future Contract Benefits:					
Remaining guaranteed interest and similar contracts ⁽²⁾			5	18	23
Embedded derivative instruments living benefits liabilities ⁽²⁾			1	(191)	(190)
Total, net	\$ 2	\$ (55)	\$ (5)	\$ (32)	\$ (90)

	For the Nine Months Ended September 30, 2008				
	(Amortization)	Other- Than- Temporary	Gains (Losses) from Sales, Maturities, Settlements, Calls	Unrealized Holding Gains (Losses)⁽³⁾	Total
	Accretion, Net	Impairment			
Investments:					
Available-for-sale securities:					
Fixed maturities ⁽¹⁾	\$ 2	\$ (52)	\$ 6	\$	\$ (44)
Equity		(31)	1		(30)
Trading securities ⁽¹⁾	2	(8)		(5)	(11)
Derivative instruments ⁽²⁾			(61)	179	118
Future Contract Benefits:					
Remaining guaranteed interest and similar contracts ⁽²⁾			14	20	34
Embedded derivative instruments living benefits liabilities ⁽²⁾			5	(182)	(177)
Total, net	\$ 4	\$ (91)	\$ (35)	\$ 12	\$ (110)

⁽¹⁾ Amortization and accretion, net and unrealized holding losses are included in net investment income on our Consolidated Statements of Income. All other amounts are included in realized loss on our Consolidated Statements of Income.

⁽²⁾ All amounts are included in realized loss on our Consolidated Statements of Income.

⁽³⁾ This change in unrealized gains or losses relates to assets and liabilities that we still held as of September 30, 2008.

The fair value of available-for-sale fixed maturity securities (in millions) classified within level 3 of the fair value hierarchy was as follows:

	As of September 30, 2008	
	Fair Value	% of Total Fair Value
Corporate bonds	\$ 2,330	61.1%
Asset-backed securities	483	12.7%
Commercial mortgage-backed securities	356	9.3%
Collateralized mortgage obligations	182	4.8%
Mortgage pass-through securities	25	0.7%
Municipals	118	3.1%
Government and government agencies	272	7.1%
Redeemable preferred stock	50	1.3%
Total available-for-sale fixed maturity securities	\$ 3,816	100.0%

	As of December 31, 2007	
	Fair Value	% of Total Fair Value
Corporate bonds	\$ 2,143	48.5%
Asset-backed securities	1,113	25.2%
Commercial mortgage-backed securities	395	8.9%
Collateralized mortgage obligations	296	6.7%
Mortgage pass-through securities	31	0.7%
Municipals	139	3.1%
Government and government agencies	272	6.2%
Redeemable preferred stock	31	0.7%
Total available-for-sale fixed maturity securities	\$ 4,420	100.0%

17. Segment Information

On July 21, 2008, we announced the realignment of our segments under our former Employer Markets and Individual Markets operating businesses into two new operating businesses – Retirement Solutions and Insurance Solutions. We believe the new structure more closely aligns with consumer needs and should lead to more coordinated product development and greater effectiveness across the enterprise. The segment changes are in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, and reflect the manner in which we are organized for purposes of making operating decisions and assessing performance. Accordingly, we have restated results from prior periods in a consistent manner with our realigned segments.

Under our newly realigned segments, we will report the results of the Executive Benefits business, which as of June 30, 2008, was part of the Retirement Products segment, in the Life Insurance segment. We do not view these changes to our segment reporting as material to our consolidated financial statements.

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

Business	Corresponding Segments
Retirement Solutions	Annuities Defined Contribution (formerly Retirement Products)

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Insurance Solutions

Life Insurance (including Executive Benefits business)
Group Protection

Investment Management

Investment Management

Lincoln UK

Lincoln UK

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, which was previously reported in Employer Markets Retirement Products and the results of our remaining media businesses.

Beginning with the quarter ended June 30, 2008, we changed our definitions of segment operating revenues and income from operations to better reflect: the underlying economics of our variable and indexed annuities that employ derivative instruments to hedge policy benefits and the manner in which management evaluates that business. Our change in the definition of income from operations is primarily the result of our adoption of SFAS 157 during the first quarter of 2008. See Note 2. Under SFAS 157, we are required to measure the fair value of these annuities from an exit value perspective, (i.e., what a market participant or willing buyer would charge to assume the liability). We, therefore, must include margins that a market participant buyer would require as well as a factor for non-performance risk related to our credit risk. We do not believe that these factors relate to the economics of the underlying business and do not reflect the manner in which management evaluates the business. The items that are now excluded from our operating results that were previously included are as follows: GLB net derivatives results; indexed annuity forward-starting option; and GDB derivatives results. See Note 12 for more information about these items.

We continue to exclude the effects of any realized gain (loss) on investments from segment operating revenues and income from operations as we believe that such items are 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.

We believe that our new 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.

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 gain (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 related trading securities;

Change in the fair value of the embedded derivatives of our GLBs 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;

Net difference between the benefit ratio unlocking of SOP No. 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts reserves on our GDB riders within our variable annuities and the change in the fair value of the derivatives excluding our expected cost of purchasing the hedging instruments; 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 as required under SFAS 133 and 157.

Income (loss) from the initial adoption of changes in accounting principles;

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Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;

Losses on early retirement of debt, including subordinated 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 gain (loss);

Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and

Revenue adjustments from the initial impact of the adoption of changes in accounting principles.

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, 2008		For the Nine Months Ended September 30, 2007	
Revenues				
Operating revenues:				
Retirement Solutions:				
Annuities	\$ 675	\$ 647	\$ 1,916	\$ 1,861
Defined Contribution	241	243	718	742
Total Retirement Solutions	916	890	2,634	2,603
Insurance Solutions:				
Life Insurance	1,072	1,056	3,210	3,121
Group Protection	403	368	1,227	1,119
Total Insurance Solutions	1,475	1,424	4,437	4,240
Investment Management ⁽¹⁾	110	150	354	451
Lincoln UK ⁽²⁾	80	89	263	272
Other Operations	111	113	341	345
Excluded realized loss, pre-tax	(256)	(66)	(421)	(27)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax		1	2	9
Total revenues	\$ 2,436	\$ 2,601	\$ 7,610	\$ 7,893

(1) Revenues for the Investment Management segment included inter-segment revenues for asset management services provided to our other segments. These inter-segment revenues totaled \$21 million and \$23 million for the three months ended September 30, 2008 and 2007, respectively, and \$61 million and \$67 million for the nine months ended September 30, 2008 and 2007, respectively.

(2) Revenues from our Lincoln UK segment represent our revenues from a foreign country.

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2007	
Net Income				
Income (loss) from operations:				
Retirement Solutions:				
Annuities	\$ 131	\$ 126	\$ 365	\$ 366
Defined Contribution	42	41	124	138
Total Retirement Solutions	173	167	489	504
Insurance Solutions:				
Life Insurance	137	182	458	548
Group Protection	27	33	86	85
Total Insurance Solutions	164	215	544	633
Investment Management				
Lincoln UK	5	22	32	49
Other Operations	12	10	41	33
Excluded realized loss, after-tax	(39)	(49)	(127)	(115)
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	(166)	(42)	(274)	(16)
Impairment of intangibles, after-tax			1	(7)
			(139)	
Income from continuing operations, after-tax	149	323	567	1,081
Income (loss) from discontinued operations, after-tax	(1)	7	(5)	21
Net income	\$ 148	\$ 330	\$ 562	\$ 1,102

18. Supplemental Disclosures of Cash Flow and Fair Value of Financial Instruments Information

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

	For the Nine Months Ended September 30, 2008		2007	
Significant non-cash investing and financing transactions:				
Business combinations:				
Fair value of assets acquired (includes cash and invested cash)		\$	\$ 86	
Fair value of common stock issued and stock options recognized			(20)	
Cash paid for common shares			(1)	
Liabilities assumed				65
Business dispositions:				
Assets disposed (includes cash and invested cash)			(732)	
Liabilities disposed			126	
Cash received			647	
Realized gain on disposal			41	
Estimated gain on net assets held-for-sale in prior periods			(54)	
Loss on discontinued operations in current period			\$ (13)	\$

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Sale of subsidiaries/businesses:

Proceeds from sale of subsidiaries/businesses, reported as gain on sale of subsidiaries/businesses	\$	6	\$
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The carrying values and estimated fair values of our debt financial instruments (in millions) were as follows:

	As of September 30, 2008		As of December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term debt	\$ (635)	\$ (600)	\$ (550)	\$ (550)
Long-term debt	(4,569)	(3,930)	(4,618)	(4,511)

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, 2008, compared with December 31, 2007, and the results of operations of LNC for the three and nine months ended September 30, 2008, as compared with the corresponding periods in 2007. 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 and our Form 10-K for the year ended December 31, 2007 (2007 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 , as well as Part II Item 1A. Risk Factors below.

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 United States of America generally accepted accounting principles (GAAP) excluding the after-tax effects of the following items, as applicable:

Realized gains and losses associated with the following (excluded realized gain (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 related trading securities;

Change in the fair value of the embedded derivatives of our guaranteed living benefits (GLB) 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;

Net difference between the benefit ratio unlocking of Statement of Position (SOP) No. 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1) reserves on our guaranteed death benefit (GDB) riders within our variable annuities and the change in the fair value of the derivatives excluding our expected cost of purchasing the hedging instruments; 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 as required under Statements of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 157, Fair Value Measurements (SFAS 157).

Income (loss) from the initial adoption of changes in accounting principles;

Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;

Losses on early retirement of debt, including subordinated debt;

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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 gain (loss);

Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and

Revenue adjustments from the initial impact of the adoption of changes in accounting principles.

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

Beginning with the quarter ended June 30, 2008, we changed our definitions of segment operating revenues and income from operations to better reflect: the underlying economics of our variable and indexed annuities that employ derivative instruments to hedge policy benefits; and the manner in which management evaluates that business. Our change in the definition of income from operations is primarily the result of our adoption of SFAS 157 during the first quarter of 2008. See Note 2. Under SFAS 157's fair value calculation, we are required to fair value these annuities from an exit value perspective, (i.e., what a market participant or willing buyer would charge to assume the liability). We, therefore, must include margins that a market participant buyer would require as well as a factor for non-performance risk related to our credit quality. We do not believe that these factors relate to the

economics of the underlying business and do not reflect the manner in which management evaluates the business. The items that are now excluded from our operating results that were previously included are as follows: GLB net derivatives results; indexed annuity forward-starting option; and GDB derivatives results. For more information regarding this change, see our current report on Form 8-K dated July 16, 2008.

We continue to exclude the effects of any realized gain (loss) on investments from segment operating revenues and income from operations as we believe that such items are 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.

We believe that our new 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. See **Realized Loss** below for more information about these items.

Certain reclassifications have been made to prior periods' financial information. Included in these reclassifications is the change in our definition of segment operating revenues and income (loss) from operations as discussed above. In addition, we have reclassified the results of certain derivatives and embedded derivatives to realized gain (loss), which were previously reported within insurance fees, net investment income, interest credited or benefits. The associated amortization expense of deferred acquisition costs (**DAC**) and value of business acquired (**VOBA**) (previously reported within underwriting, acquisition, insurance and other expenses), deferred sales inducements (**DSI**) (previously reported within interest credited), deferred front-end loads (**DFEL**) (previously reported within insurance fees) and changes in contract holder funds (previously reported within benefits) have also been reclassified to realized gain (loss). See Note 1 for additional information.

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 in 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 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 effectiveness of the U.S. government's plan to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions;

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 **VACARVM** (**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

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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 DAC, VOBA, DSI and 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, including the impact of SFAS 157 and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ;

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 and profitability of its insurance subsidiaries;

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, including LNC's ability to successfully integrate Jefferson-Pilot Corporation (Jefferson-Pilot) businesses acquired on April 3, 2006, to achieve the expected synergies from the merger or to achieve such synergies within our expected timeframe;

The adequacy and collectibility of reinsurance that LNC has purchased;

Acts of terrorism, 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, portfolio managers in the Investment Management segment, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this report, our 2007 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.

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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 and investment management 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, mutual funds and managed accounts.

On July 21, 2008, we announced the realignment of our segments under our former Employer Markets and Individual Markets businesses into two new businesses Retirement Solutions and Insurance Solutions. We believe the new structure more closely aligns with consumer needs and should lead to more coordinated product development and greater effectiveness across the enterprise. The only change to our segment reporting is reporting the results of the Executive Benefits business, which as of June 30, 2008, was part of the Retirement Products segment, in the Life Insurance segment. Accordingly, beginning in the third quarter of 2008, we provide products and services in four operating business and report results through six segments as follows:

Business	Corresponding Segments
Retirement Solutions	Annuities Defined Contribution (formerly Retirement Products)
Insurance Solutions	Life Insurance (including Executive Benefits business) Group Protection
Investment Management	Investment Management
Lincoln UK	Lincoln UK

These changes to the Retirement Products and the Life Insurance segments are in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, and reflect the manner in which we are organized for purposes of making operating decisions and assessing performance. Our segment results are reported under this new structure beginning in the third quarter of 2008, and we have restated results from prior periods in a consistent manner. We view the changes to the existing segments as immaterial.

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, which was previously reported in Employer Markets Retirement Products and the results of our remaining media businesses.

Current Market Conditions

During the first nine months of the year, the capital markets continued to experience high volatility that affected both equity market returns and interest rates. In addition, credit spreads widened across asset classes and reduced liquidity in the credit markets. Earnings for the remainder of 2008 will continue to be unfavorably impacted by the significant decline in the equity markets during the first nine months of 2008. Due to these challenges, the capital markets had a significant effect on our segment operating income and consolidated net income for the three and nine months ended September 30, 2008. Furthermore, although the fourth quarter is normally the strongest in terms of sales for our Life Insurance segment, we expect that those results will be muted in the fourth quarter. The markets impact primarily the following areas:

Earnings from Assets Under Management

Our asset-gathering segments: Retirement Solutions Annuities; Retirement Solutions Defined Contribution; and Investment Management; are sensitive to the equity markets. We discuss the earnings impact of the equity markets on account values, assets under management and the related asset-based fees below in Item 3. Quantitative and Qualitative Disclosures About Market Risk Equity Market Risk Impact of Equity Market Sensitivity. From the end of 2007 to September 30, 2008, the daily average value of the Standard & Poor's (S&P) 500 Index® decreased 10%. Solely as a result of the equity markets, our assets under management as of September 30, 2008, were down \$30.1 billion from the end of the prior year. Strong deposits over the last year have only helped to partially offset this impact for the three and nine months ended September 30, 2008, compared to the same periods in 2007.

We have continued to experience unfavorable equity markets as the October 2008 daily average of the S&P 500 Index® declined 17% from its value as of September 30, 2008, resulting in an approximate \$18 billion decline in our assets under management. We expect our income from operations to be negatively impacted in our asset-gathering businesses from lower asset-based earnings and expect our net flows in these businesses to continue to be pressured from these unfavorable equity market conditions.

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 mostly of hedge funds and various limited partnership investments, to perform in line relative to our long-term expectations, but we expect these assets to under-perform, going forward, in the short term. This impact was primarily in our Insurance Solutions Life Insurance, Retirement Solutions Annuities and Retirement Solutions Defined Contribution segments. See Consolidated Investments Alternative Investments for additional information on our investment portfolio.

Variable Annuity Living Benefit Hedge Program Results

We offer variable annuity products with living benefit guarantees. These guarantees are considered embedded derivatives and are recorded on our Consolidated Balance Sheets at fair value under SFAS 133 and SFAS 157. Effective January 1, 2008, we adopted SFAS 157, which affected the valuation of our embedded derivatives. See Note 2 of this report for details on the adoption of SFAS 157. 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 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 fair value of the embedded derivatives. For the three and nine months ended September 30, 2008, the market conditions noted above negatively affected the net result of the change in the fair value of the living benefit embedded derivative, excluding the effect of a change in our non-performance risk factor, and the change in fair value of the hedging derivatives. The change in our non-performance risk factor used in the calculation of the embedded derivative liability had a favorable effect resulting in an overall positive outcome. These results are excluded from operating revenues and income (loss) from operations.

Credit Losses, Impairments and Unrealized Losses

Related to our investments in fixed income and equity securities, we experienced net realized losses of \$314 million and \$480 million for the three and nine months ended September 30, 2008, which included gross write-downs of securities for other-than-temporary impairments of \$312 million and \$523 million, respectively. Widening spreads was the primary cause of an increase in gross unrealized losses of \$3.7 billion on investments in our general account for the nine months ended September 30, 2008, for our available-for-sale fixed maturity securities. These unrealized losses were concentrated in the investment grade category of investments and demonstrate how reduced liquidity in the credit markets have resulted in a decline in asset values as investors shift their investments to safer government securities, such as U.S. Treasuries.

The effect of the negative equity markets on our assets under management in the first nine months of 2008 will continue to dampen our earnings throughout 2008 even if, for the remainder of the year, the equity market returns are consistent with our long-term assumptions. Accordingly, we may continue to report lower asset-based fees relative to expectations or prior periods. The volatility and uncertainty in the capital markets will also likely result in lower than expected returns in the short term on alternative investments. In addition, continued weakness in the economic environment could lead to increased credit defaults, resulting in additional write-downs of securities for other-than-temporary impairments.

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.

Capital Preservation

On October 10, 2008, the Board of Directors approved a decrease in the quarterly dividend to stockholders from \$0.415 per share to \$0.21 per share effective in 2009, which is expected to add approximately \$50 million to capital each quarter. Additionally, we have suspended further stock repurchase activity. Both of these changes will favorably impact our capital position prospectively.

Emergency Economic Stabilization Act of 2008

In reaction to the credit market illiquidity and global financial crisis experienced during September and October of 2008, Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA) on October 3, 2008, in an effort to restore liquidity to the U.S. credit markets. The EESA defines financial institutions to include insurance companies. The EESA contains the Troubled Assets Relief Program (TARP). The TARP authorized the U.S. Treasury to purchase troubled assets (as defined in the TARP) from financial institutions, including insurance companies. Pursuant to the authority granted under the TARP, the U.S. Treasury also adopted the Capital Purchase Program. Under the Capital Purchase Program, as currently adopted, bank and thrift holding companies may apply to the U.S. Treasury for the direct sale of preferred stock and warrants to the U.S. Treasury. It remains unclear at this point, if and when the EESA will restore sustained liquidity and confidence in the markets and its affect on the fair value of our invested assets.

Strategic and Operational Review

Product development and strong distribution are important to our ability to meet the challenges of the competitive marketplace. In the third quarter of 2008, our Insurance Solutions Life Insurance segment launched *Lincoln AssetEdge*SM VUL, a variable life insurance product offering clients the ability to align their portfolio to match investment goals, while retaining the flexibility to change allocations as needs change. In February 2008, our Retirement Solutions Annuities segment launched a new guaranteed withdrawal benefit (GWB), *Lincoln Lifetime Income*SM Advantage, which includes features such as: a reduced minimum age for lifetime income eligibility; a 5% benefit enhancement in each year an owner does not take a withdrawal; a health care benefit; and a guaranteed minimum accumulation benefit. Within the mid-sized market of our Retirement Solutions Defined Contribution segment, in the first quarter we launched our *Lincoln SmartFuture*SM retirement program to fill the gap between our Alliance program and our group variable annuities.

In the third quarter we launched our new LINCOLN DIRECTORSM product that offers more than 80 investment options and will be positioned as our primary product in the micro-to small 401(k) plan marketplace. This product includes fiduciary support for plan sponsors, accumulation strategies and tools for plan participants and will also offer our patented distribution option, *i4LIFE*[®] Advantage.

In terms of increasing our distribution breadth, we launched variable annuity products into three large banks during the first nine months of 2008. In support of these and other activities, Lincoln Financial Distributors (LFD) increased the number of wholesalers by 13% since the end of 2007.

Challenges and Outlook

For the remainder of 2008, we expect major challenges to include:

Continuation of volatility in the equity markets and hedge breakage, as the October 2008 daily average of the S&P 500 Index[®] declined 17% from its value as of September 30, 2008, causing continued variable account value erosion;

Continuation of illiquid credit markets and impact on spreads and on other-than-temporary impairments;

Continuation of the low interest rate environment, which creates a challenge for our products that generate investment margin profits, such as fixed annuities and UL;

Continuation of challenges in the economy, including the potential for a recession;

Achieving success in our portfolio of products, marketplace acceptance of new variable annuity features and maintaining management and wholesalers that will help maintain our competitive position; and

Continuation of focus by the government on tax reform including potential changes in company dividends-received deduction (DRD) calculations, which may impact our products and overall earnings.

In the face of these challenges, we expect to focus on the following throughout the remainder of 2008:

Continue near term product development in our manufacturing units and future product development initiatives in our Retirement Income Security Venture unit related to the evolving retirement income security marketplace;

Engage in cost reduction initiatives and further embed financial and execution discipline throughout our operations by using technology and making other investments to improve operating effectiveness and lower unit costs; and

Substantially complete the remaining platform and system consolidations necessary to achieve the final portion of integration cost saves as well as prepare us for more effective customer interaction in the future.

Critical Accounting Policies and Estimates

The MD&A included in our 2007 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 2007 Form 10-K and, accordingly, should be read in conjunction with the critical accounting policies and estimates discussed in our 2007 Form 10-K.

Adoption of SFAS No. 157 Fair Value Measurements

We adopted SFAS 157 for all our financial instruments effective January 1, 2008. For detailed discussions of the methodologies and assumptions used to determine the fair value of our financial instruments and a summary of our financial instruments carried at fair value as of September 30, 2008, see Notes 2 and 16 of this report and Notes 1 and 19 to the consolidated financial statements in our 2007 Form 10-K.

The adoption of SFAS 157 decreased income from continuing operations by \$16 million. The impact to revenue is reported in realized gain (loss) and such amount along with the associated federal income taxes is excluded from income from operations of our segments. For a detailed description of the impact of adoption on our consolidated financial statements, see Note 2.

We did not make any material changes to valuation techniques or models used to determine the fair value of our assets and liabilities carried at fair value during the three and nine months ended September 30, 2008, subsequent to the adoption of SFAS 157. As part of our on-going valuation process, we assess the reasonableness of all our valuation techniques or models and make adjustments as necessary.

Our investment securities are valued using market inputs, including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored, and further market data is acquired if certain triggers are met. Credit risk is also incorporated and considered in the valuation of our investment securities as we incorporate the issuer's credit rating and a risk premium, if warranted, due to the issuer's industry and the security's time to maturity. The credit rating is based upon internal and external analysis of the issuer's financial strength. 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 as well as observations of general market movements for those asset classes. The broker/dealer quotes are non-binding. Our broker-quoted only securities are generally classified as Level 3 in the SFAS 157 hierarchy.

It is possible that different valuation techniques and models, other than those described above, could produce materially different estimates of fair values.

The following summarizes our financial instruments carried at fair value by pricing source and SFAS 157 hierarchy level (in millions):

	As of September 30, 2008			
	Level 1	Level 2	Level 3	Total
Priced by third party pricing services	\$ 293	\$ 43,861	\$	\$ 44,154
Priced by independent broker quotations			2,528	2,528
Priced by matrices		6,807		6,807
Priced by other methods ⁽¹⁾			2,590	2,590
Cash and invested cash ⁽²⁾		2,160		2,160
Total	\$ 293	\$ 52,828	\$ 5,118	\$ 58,239
Percent of total	1%	90%	9%	100%

⁽¹⁾ Represents primarily securities for which pricing models were used to compute the fair values.

⁽²⁾ Valued primarily at amortized cost, which approximates fair value.

Our insurance liabilities that contain embedded derivatives are valued based on a stochastic projection of scenarios of the embedded derivative fees, benefits and expenses. The scenario assumptions, at each valuation date, are those we view to be appropriate for a hypothetical market participant and include assumptions for capital markets, actuarial lapse, benefit utilization, mortality, risk margin, administrative expenses and a

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margin for profit. In addition, a non-performance risk component is determined each valuation date that reflects our risk of not fulfilling the obligations of the underlying liability. The spread for the non-performance risk is added to the discount rates used in determining the fair value from the net cash flows. 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.

The adoption of SFAS 157 increased our exposure to earnings volatility from period to period due primarily to the inclusion of the non-performance risk into the calculation of the GLB embedded derivative liability. For additional information, see our discussion in Realized Loss below and Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following summarizes the percentages of our financial instruments carried at fair value on a recurring basis by the SFAS 157 hierarchy levels:

	As of September 30, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
Assets	1%	90%	9%	100%
Liabilities	0%	0%	100%	100%

Note: The percentages above are calculated excluding separate account assets.

Changes of our financial instruments carried at fair value and classified within level 3 of the fair value hierarchy result from changes in market conditions, as well as changes in our portfolio mix and increases and decreases in fair values as a result of those classifications. During the three and nine months ended September 30, 2008, there were no material changes in financial instruments classified as level 3 of the fair value hierarchy. For further detail, see Note 16.

See Consolidated Investments below for a summary of our investments in available-for-sale securities backed by pools of residential mortgages.

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 the estimates of future gross profits used in the prior quarter and the emergence of actual and updated estimates of future gross profits 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 and rider utilization. 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 emerging experience period-over-period, while prospective unlocking is driven by changes in assumptions or projection models related to estimated future gross profits.

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 expense in the period, whereas unfavorable unlocking refers to a decrease in the amortization expense 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 the change in reserves in the period, whereas unfavorable unlocking refers to an increase in the change in reserves in the period.

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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,	
	2008	2007
Insurance fees:		
Retirement Solutions Annuities	\$ (1)	\$ (1)
Insurance Solutions Life Insurance	(28)	26
Lincoln UK	(1)	5
Total insurance fees	(30)	30
Realized gain (loss):		
Indexed annuity forward-starting option		1
GLB	48	2
Total realized gain (loss)	48	3
Total revenues	18	33
Interest credited:		
Retirement Solutions Annuities		(1)
Total interest credited		(1)
Benefits:		
Retirement Solutions Annuities		2
Insurance Solutions Life Insurance	85	
Total benefits	85	2
Underwriting, acquisition, insurance and other expenses:		
Retirement Solutions Annuities	(2)	(12)
Retirement Solutions Defined Contribution		3
Insurance Solutions Life Insurance	(81)	21
Lincoln UK	4	2
Total underwriting, acquisition, insurance and other expenses	(79)	14
Total benefits and expenses	6	15
Income from continuing operations before taxes	12	18
Federal income taxes	4	6
Income from continuing operations	\$ 8	\$ 12

As equity markets do not move in a systematic manner, we use a reversion to the mean (RTM) process to compute our best estimate long-term gross growth rate assumption. Under our current RTM process, on each valuation date, future estimated gross profits (EGPs) are projected using stochastic modeling of a large number of future equity market scenarios in conjunction with best estimates of lapse rates, interest rate spreads and mortality to develop a statistical distribution of the present value of future EGPs for our variable annuity, annuity-based 401(k) and unit-linked product blocks of business. This process is not applied to our life insurance and fixed annuity businesses, as equity market performance does not have as significant of an impact on these products. Because future equity market returns are unpredictable, the underlying premise of this process is that best estimate projections of future EGPs, as required by SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (SFAS 97), need not be

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affected by random short-term and insignificant deviations from expectations in equity market returns. However, long-term or significant deviations from expected equity market returns require a change to best estimate projections of EGPs and prospective unlocking of DAC, VOBA, DSI and DFEL. The statistical distribution is designed to identify when the equity market return deviations from expected returns have become significant enough to warrant a change of the future equity return EGP assumption.

The stochastic modeling performed for our variable annuity blocks of business as described above is used to develop a range of reasonably possible future EGPs. We compare the range of the present value of the future EGPs from the stochastic modeling to that used in our amortization model. A set of intervals around the mean of these scenarios is utilized to calculate two separate statistical ranges of reasonably possible EGPs. These intervals are then compared again to the present value of the EGPs used in the amortization model. If the present value of EGP assumptions utilized for amortization were to exceed the margin of the

reasonable range of statistically calculated EGPs, a revision of the EGPs used to calculate amortization would occur. If a revision is deemed necessary, future EGPs would be re-projected using the current account values at the end of the period during which the revision occurred along with a revised long-term annual equity market gross return assumption such that the reprojected EGPs would be our best estimate of EGPs.

Notwithstanding these intervals, if a severe decline or advance in equity markets were to occur or should other circumstances, including contract holder behavior, suggest that the present value of future EGPs no longer represents our best estimate, we could determine that a revision of the EGPs is necessary.

Our practice is not necessarily to unlock immediately after exceeding the first of the two statistical ranges, but, rather, if we stay between the first and second statistical range for several quarters, we would likely unlock. Additionally, if we exceed the ranges as a result of a short-term market reaction, we would not necessarily unlock. However, if the second statistical range is exceeded for more than one quarter, it is likely that we would unlock. While this approach reduces adjustments to DAC, VOBA, DSI and DFEL due to short-term equity market fluctuations, significant changes in the equity markets that extend beyond one or two quarters could result in a significant favorable or unfavorable unlocking.

The October 2008 daily average of the S&P 500 Index® declined 17% from its value as of September 30, 2008, negatively impacting our variable account values. If equity markets do not materially improve over the remainder of the fourth quarter, we may unlock our model assumption for equity market returns for DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for annuity products with living and death benefit guarantees, resulting in a significant unfavorable impact to net income. We estimate that if the variable account values were to decline approximately 20% at December 31, 2008 from the levels at September 30, 2008, an unlocking during the fourth quarter could reduce net income by approximately \$250 million, after-tax.

Goodwill and Other Intangible Assets

Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite lives are not amortized, but are subject to impairment tests conducted at least annually. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. We use October 1 as the annual review date for goodwill and other intangible assets impairment testing.

The valuation techniques we use to estimate the fair value of the group of assets comprising the different reporting units varies based on the characteristics of each reporting unit's business and operations. A market-based valuation technique that focuses on price-to-earnings multiplier and the segment-level operating income is used for the Retirement Solutions and Insurance Solutions segments and the remaining media business that is now reported in Other Operations. For the Lincoln UK segment, a discounted cash flow model is utilized to determine the fair value. A valuation technique combining multiples of revenues, earnings before interest, taxes, depreciation and amortization and assets under management is used to assess the goodwill in our Investment Management segment.

Derivatives

To protect us from a variety of equity market and interest rate risks that are inherent in many of our life insurance and annuity products, we use various derivative instruments. Assessing the effectiveness of these hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. We use derivatives to hedge equity market risks, interest rate risk and foreign currency exposures that are embedded in our annuity and life insurance product liabilities or investment portfolios. Derivatives held as of September 30, 2008, contain industry standard terms and are entered into with financial institutions with long-standing, superior performance records. Our accounting policies for derivatives and the potential impact on interest spreads in a falling rate environment are discussed in Item 3. Quantitative and Qualitative Disclosures About Market Risk of this report and Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 5 to the consolidated financial statements in our 2007 Form 10-K.

Guaranteed Living Benefits

We have a dynamic hedging strategy designed to mitigate selected risk and income statement volatility caused by changes in the equity markets, interest rates and market implied volatilities associated with the *Lincoln SmartSecurity*® Advantage GWB feature and our *i4LIFE*® Advantage guaranteed income benefit (GIB) feature that is available in our variable annuity products. In the second quarter of 2007, we also began hedging our 4LATER® Advantage GIB feature available in our variable annuity products. These living benefit features are collectively referred to as GLBs. During 2007, we made adjustments to our hedging program to purchase longer dated volatility protection and increased our hedges related to volatility to better match liability sensitivities under SFAS 157. In addition, in early January 2008, we added the variable annuity business in our New York insurance subsidiary, with total account values of approximately \$1.1 billion as of September 30, 2008, to our hedge program. In February 2008, we also added our new GWB *Lincoln Lifetime Income*™ Advantage to our hedging program. In addition to mitigating selected risk and

income statement volatility, the hedge program is also focused on long-term performance of the hedge program recognizing that any material potential claims under the GLBs are approximately a decade in the future.

The hedging strategy is designed such that changes in the value of the hedge contracts move in the opposite direction of changes in the value of the embedded derivative of the GWB and GIB features. This dynamic hedging strategy utilizes options on U.S.-based equity indices, futures on U.S.-based and international equity indices and variance swaps on U.S.-based equity indices, as well as interest rate futures and swaps. The notional amounts of the underlying hedge instruments are such that the magnitude of the change in the value of the hedge instruments due to changes in equity markets, interest rates and implied volatilities is designed to offset the magnitude of the change in the fair value of the GWB and GIB guarantees caused by those same factors. As of September 30, 2008, the embedded derivatives for GWB, the *i4LIFE*® Advantage GIB and the *4LATER*® Advantage GIB were liabilities valued at \$249 million, \$200 million and \$115 million, net of the non-performance risk factor (NPR) required by SFAS 157, respectively.

For additional information on our hedging results, see our discussion in *Realized Loss* below.

Acquisitions and Dispositions

Dispositions

Media Business

On June 7, 2007, we announced plans to explore strategic options for our former business segment, Lincoln Financial Media. During the fourth quarter of 2007, we decided to divest our television and Charlotte radio broadcasting and sports programming businesses, and, on November 12, 2007, we signed agreements to sell them. The divestiture of the sports programming business closed on November 30, 2007, the Charlotte radio broadcasting business closed on January 31, 2008, and the television broadcasting business closed on March 31, 2008. Accordingly, we have reported the results of these businesses as discontinued operations on our Consolidated Statements of Income and the assets and liabilities as held for sale on our Consolidated Balance Sheets for all periods presented. We continue to actively manage our investment in our remaining radio clusters, which are now being reported within Other Operations, to maximize station performance and future valuation. For additional information, see Note 3.

The proceeds from the sales of the above media properties were used for repurchase of shares, repayment of debt and other strategic initiatives.

The results of operations of these businesses have been reclassified into income from discontinued operations for all periods presented on the Consolidated Statements of Income. The amounts (in millions) related to operations of these businesses, included in income from discontinued operations, were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	2008	2007	Change	2008	2007	Change
Discontinued Operations Before Disposal						
Media revenues, net of agency commissions	\$	\$ 33	-100%	\$ 22	\$ 104	-79%
Income from discontinued operations before disposal, before federal income taxes	\$	\$ 10	-100%	\$ 8	\$ 32	-75%
Federal income taxes		3	-100%	3	11	-73%
Income from discontinued operations before disposal		7	-100%	5	21	-76%
Disposal						
Loss on disposal, before federal income taxes			NM	(13)		NM
Federal income tax benefit		1	NM	(3)		NM
Loss on disposal		(1)	NM	(10)		NM

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Income (loss) from discontinued operations	\$ (1)	\$ 7	NM	\$ (5)	\$ 21	NM
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During the first quarter of 2008, we adjusted our loss on disposal of discontinued media properties due primarily to changes in the net assets disposed of for the television broadcasting business.

Fixed Income Investment Management Business

During the fourth quarter of 2007, we sold certain institutional taxable fixed income business to an unaffiliated investment management company. Investment Management transferred \$12.3 billion of assets under management as part of this transaction. Based upon the assets transferred as of October 31, 2007, the purchase price is expected to be no more than \$49 million. The impact of this transaction is discussed further below in results of Investment Management.

During the fourth quarter of 2007, we received \$25 million of the purchase price, with additional scheduled payments over the next three years. During 2007, we recorded an after-tax realized loss of \$2 million on our Consolidated Statements of Income as a result of goodwill we attributed to this business. During the three and nine months ended September 30, 2008, we recorded an after-tax gain of \$1 million and \$4 million, respectively, on our Consolidated Statements of Income related to this transaction.

For additional information about acquisitions and dispositions, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction Acquisition and Dispositions in our 2007 Form 10-K.

RESULTS OF CONSOLIDATED OPERATIONS**Net Income**

Details underlying the consolidated results and assets under management (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Revenues						
Insurance premiums	\$ 533	\$ 491	9%	\$ 1,572	\$ 1,439	9%
Insurance fees	791	836	-5%	2,446	2,342	4%
Investment advisory fees	68	89	-24%	220	272	-19%
Net investment income	1,089	1,062	3%	3,231	3,285	-2%
Realized loss	(204)	(65)	NM	(347)	(24)	NM
Amortization of deferred gain on business sold through reinsurance	19	19	0%	57	65	-12%
Other revenues and fees	140	169	-17%	431	514	-16%
Total revenues	2,436	2,601	-6%	7,610	7,893	-4%
Benefits and Expenses						
Interest credited	625	611	2%	1,849	1,817	2%
Benefits	836	623	34%	2,199	1,866	18%
Underwriting, acquisition, insurance and other expenses	754	850	-11%	2,408	2,475	-3%
Interest and debt expense	69	69	0%	209	204	2%
Impairment of intangibles			NM	175		NM
Total benefits and expenses	2,284	2,153	6%	6,840	6,362	8%
Income from continuing operations before taxes	152	448	-66%	770	1,531	-50%
Federal income taxes	3	125	-98%	203	450	-55%
Income from continuing operations	149	323	-54%	567	1,081	-48%
Income (loss) from discontinued operations, net of federal incomes taxes	(1)	7	NM	(5)	21	NM
Net income	\$ 148	\$ 330	-55%	\$ 562	\$ 1,102	-49%

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007			Change
Revenues							
Operating revenues:							
Retirement Solutions:							
Annuities	\$ 675	\$ 647	4%	\$ 1,916	\$ 1,861	3%	
Defined Contribution	241	243	-1%	718	742	-3%	
Total Retirement Solutions	916	890	3%	2,634	2,603	1%	
Insurance Solutions:							
Life Insurance	1,072	1,056	2%	3,210	3,121	3%	
Group Protection	403	368	10%	1,227	1,119	10%	
Total Insurance Solutions	1,475	1,424	4%	4,437	4,240	5%	
Investment Management							
Lincoln UK	110	150	-27%	354	451	-22%	
Other Operations	80	89	-10%	263	272	-3%	
Excluded realized loss, pre-tax	111	113	-2%	341	345	-1%	
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	(256)	(66)	NM	(421)	(27)	NM	
		1	-100%	2	9	-78%	
Total revenues	\$ 2,436	\$ 2,601	-6%	\$ 7,610	\$ 7,893	-4%	

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007			Change
Net Income							
Income (loss) from operations:							
Retirement Solutions:							
Annuities	\$ 131	\$ 126	4%	\$ 365	\$ 366	0%	
Defined Contribution	42	41	2%	124	138	-10%	
Total Retirement Solutions	173	167	4%	489	504	-3%	
Insurance Solutions:							
Life Insurance	137	182	-25%	458	548	-16%	
Group Protection	27	33	-18%	86	85	1%	
Total Insurance Solutions	164	215	-24%	544	633	-14%	
Investment Management							
Lincoln UK	5	22	-77%	32	49	-35%	
Other Operations	12	10	20%	41	33	24%	
Excluded realized loss, after-tax	(39)	(49)	20%	(127)	(115)	-10%	
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	(166)	(42)	NM	(274)	(16)	NM	
Impairment of intangibles, after-tax			NM	1	(7)	114%	
			NM	(139)		NM	
Income from continuing operations	149	323	-54%	567	1,081	-48%	
Income (loss) from discontinued operations	(1)	7	NM	(5)	21	NM	

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Net income	\$ 148	\$ 330	-55%	\$ 562	\$ 1,102	-49%
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	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	2008	2007	Change	2008	2007	Change
Deposits						
Retirement Solutions:						
Annuities	\$ 2,948	\$ 3,478	-15%	\$ 9,410	\$ 9,577	-2%
Defined Contribution	1,334	1,525	-13%	4,306	4,285	0%
Insurance Solutions Life Insurance	1,082	1,032	5%	3,276	3,219	2%
Investment Management	3,988	5,745	-31%	12,217	17,929	-32%
Consolidating adjustments ⁽¹⁾	(1,118)	(907)	-23%	(3,514)	(2,896)	-21%
Total deposits	\$ 8,234	\$ 10,873	-24%	\$ 25,695	\$ 32,114	-20%
Net Flows						
Retirement Solutions:						
Annuities	\$ 944	\$ 1,291	-27%	\$ 3,714	\$ 3,185	17%
Defined Contribution	93	133	-30%	610	428	43%
Insurance Solutions Life Insurance	690	629	10%	2,018	1,863	8%
Investment Management	(3,332)	90	NM	(5,970)	(423)	NM
Consolidating adjustments ⁽¹⁾	169	200	-16%	79	547	-86%
Total net flows	\$ (1,436)	\$ 2,343	NM	\$ 451	\$ 5,600	-92%

⁽¹⁾ Consolidating adjustments represents the elimination of deposits and net flows on products affecting more than one segment.

	As of September 30,		
	2008	2007	Change
Assets Under Management by Advisor			
Investment Management:			
External assets	\$ 57,662	\$ 89,540	-36%
Inter-segment assets	72,468	77,500	-6%
Lincoln UK	6,585	9,192	-28%
Policy loans	2,870	2,841	1%
Assets administered through unaffiliated third parties	59,922	72,406	-17%
Total assets under management	\$ 199,507	\$ 251,479	-21%

Comparison of the Three Months Ended September 30, 2008 to 2007

Net income decreased due primarily to the following:

Higher write-downs for other-than-temporary impairments on our available-for-sale securities attributable primarily to unfavorable changes in credit quality and increases in credit spreads;

A \$72 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees in the third quarter of 2008 compared to a \$9 million favorable retrospective unlocking in the third quarter of 2007;

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Higher benefits due to growth in business in force and higher death claims;

Unfavorable GDB derivative results driven by lower account values from unfavorable equity markets; and

Lower earnings from our variable annuity and mutual fund products as a result of declines in assets under management caused by decreases in the level of the equity markets.

The causes of decreases in net income were partially offset by:

Favorable GLB net derivatives results as gains attributable to the SFAS 157 non-performance risk adjustment attributable primarily to widening credit spreads more than offset the GLB hedge program ineffectiveness and unfavorable GDB results, both excluding the impact of unlocking, due to extreme market conditions;

Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to declines in variable account values from unfavorable equity markets during 2008;

A reduction in income tax expense related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to unfavorable tax return true-ups and other items in 2007;

Higher net investment income driven by more favorable results from our surplus and alternative investments; and

Lower broker-dealer expenses driven by lower sales and lower merger-related expenses.

Comparison of the Nine Months Ended September 30, 2008 to 2007

In addition to the items discussed above, excluding the unfavorable retrospective unlocking, lower earnings on variable annuity and mutual fund products and higher net investment income items, net income for the nine months ended September 30, 2008, compared to the same period in 2007 was also affected by:

Impairment of goodwill and our FCC license intangible assets on our remaining radio clusters during the second quarter of 2008 attributable primarily to declines in advertising revenues for the entire radio market; however, these non-cash impairments will not impact our future liquidity;

A \$73 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees in 2008 compared to a \$34 million favorable retrospective unlocking in 2007;

Growth in insurance fees driven by increases in life insurance in force as a result of new sales since September 30, 2007, and favorable persistency along with increases in variable account values from positive net flows and transfers from fixed account values, including the fixed portion of variable, partially offset by unfavorable equity markets and adjustments during the second quarter of 2007 resulting from adjusting account values for certain of our life insurance policies and modifying the accounting for certain of our life insurance policies;

Lower net investment income driven by less favorable results from our alternative investments and prepayment and bond makewhole premiums;

Lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals;

The first quarter of 2008 adjustment to our loss on disposition of our discontinued operations;

A \$16 million effect of the initial adoption of SFAS 157 on January 1, 2008; and

A reduction in benefits in the first quarter of 2007 related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot.

The foregoing items are discussed in further detail in results of operations by segment discussions and Realized Loss below. In addition, for a discussion of the earnings impact of the equity markets, see Item 3. Quantitative and Qualitative Disclosures About Market Risk Equity Market Risk Impact of Equity Market Sensitivity.

RESULTS OF 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.

Details underlying the results for Retirement Solutions (in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance premiums	\$ 52	\$ 43	21%	\$ 103	\$ 72	43%
Insurance fees	302	324	-7%	927	916	1%
Net investment income	424	422	0%	1,263	1,315	-4%
Operating realized gain	52	1	NM	74	3	NM
Other revenues and fees	86	100	-14%	267	297	-10%
Total operating revenues	916	890	3%	2,634	2,603	1%
Operating Expenses						
Interest credited	277	269	3%	816	806	1%
Benefits	112	56	100%	199	108	84%
Underwriting, acquisition, insurance and other expenses	331	341	-3%	1,003	1,009	-1%
Total operating expenses	720	666	8%	2,018	1,923	5%
Income from operations before taxes	196	224	-13%	616	680	-9%
Federal income taxes	23	57	-60%	127	176	-28%
Income from operations	\$ 173	\$ 167	4%	\$ 489	\$ 504	-3%

Details underlying account values for Retirement Solutions (in millions) were as follows:

Account Values	As of September 30,		Change
	2008	2007	
Variable portion of variable annuities	\$ 63,462	\$ 76,873	-17%
Fixed portion of variable annuities	9,661	9,418	3%
Total variable annuities	73,123	86,291	-15%
Fixed annuities, including indexed	19,446	19,286	1%
Fixed annuities ceded to reinsurers	(1,196)	(1,430)	16%
Total fixed annuities	18,250	17,856	2%
Total annuities	91,373	104,147	-12%
Mutual funds	7,675	7,165	7%
Total annuities and mutual funds	\$ 99,048	\$ 111,312	-11%

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Average daily variable account values	\$ 70,299	\$ 73,989	-5%	\$ 72,298	\$ 70,965	2%
Average fixed account values, including the fixed portion of variable	28,495	28,263	1%	28,524	28,534	0%

The discussion of Retirement Solutions is provided in Retirement Solutions Annuities and Retirement Solutions Defined Contribution below.

Retirement Solutions Annuities

Income from Operations

Details underlying the results for Retirement Solutions Annuities (in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance premiums	\$ 52	\$ 43	21%	\$ 103	\$ 72	43%
Insurance fees	246	259	-5%	749	724	3%
Net investment income	243	249	-2%	736	780	-6%
Operating realized gain	52	1	NM	74	3	NM
Other revenues and fees ⁽¹⁾	82	95	-14%	254	282	-10%
Total operating revenues	675	647	4%	1,916	1,861	3%
Operating Expenses						
Interest credited	170	165	3%	496	492	1%
Benefits	112	56	100%	199	108	84%
Underwriting, acquisition, insurance and other expenses	254	256	-1%	774	772	0%
Total operating expenses	536	477	12%	1,469	1,372	7%
Income from operations before taxes	139	170	-18%	447	489	-9%
Federal income taxes	8	44	-82%	82	123	-33%
Income from operations	\$ 131	\$ 126	4%	\$ 365	\$ 366	0%

⁽¹⁾ Other revenues and fees consists primarily of broker-dealer earnings that are subject to market volatility.
Comparison of the Three Months Ended September 30, 2008 to 2007

Income from operations for this segment increased due primarily to the following:

Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to declines in variable account values from unfavorable equity markets during 2008 and lower incentive compensation accruals as a result of production performance relative to planned goals; and

A reduction in income tax expense related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to unfavorable tax return true-ups and other items in 2007.

The increase in income from operations was partially offset by the following:

A \$9 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for annuity products with living benefit and death benefit guarantees in 2008 compared to a \$4 million favorable retrospective unlocking in 2007;

A \$7 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for annuity products with living benefit and death benefit guarantees (an \$18 million favorable unlocking from assumption changes net of a \$11 million unfavorable unlocking from model refinements) in 2007;

Lower insurance fees driven by lower average daily variable account values due to unfavorable equity markets, partially offset by an increase in surrender charges; and

A decline in surplus investment income, which was attributable to a decision to hold more cash, thereby lowering earnings, and declines in investment income on alternative investments and commercial mortgage loan prepayment and bond makewhole premiums.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Income from operations for this segment modestly decreased due primarily to the following:

Lower investment income from fixed maturity securities, mortgage loans on real estate and other net investment income primarily attributable to the decline in the average fixed account values, including the fixed portion of variable, driven primarily by transfers to variable account values in excess of net flows;

A \$6 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for annuity products with living benefit and death benefit guarantees in 2008 compared to a \$14 million favorable retrospective unlocking in 2007;

The impact of prospective unlocking discussed above; and

A less favorable net broker-dealer margin attributable to lower earnings from unfavorable equity markets.
The decrease in income from operations was partially offset by the following:

Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to a decline in the emergence of gross profits and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals;

A reduction in income tax expense related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to unfavorable tax return true-ups and other items in 2007; and

An increase in insurance fees driven by higher average daily variable account values attributable to positive net flows and transfers from fixed account values, including the fixed portion of variable, partially offset by unfavorable equity markets.
The foregoing items are discussed further below following *Impact of Current Market Conditions*. For detail on the operating realized gain, see *Realized Loss* below.

Impact of Current Market Conditions

The October 2008 daily average of the S&P 500 Index[®] declined 17% from its value as of September 30, 2008, negatively impacting our variable account values. Consequently, we expect lower earnings in the fourth quarter as a result of October's results, including the following:

Lower variable account values, which will reduce expense assessment revenue, partially offset by lower asset-based expenses;

Higher unfavorable retrospective unlocking due to lower equity market performance than our model projections assumed; and

If equity markets do not materially improve over the remainder of the fourth quarter, we may unlock our amortization model assumption for equity market returns for DAC, VOBA, DSI, DFEL and reserves for annuity products with living and death benefit guarantees, resulting in a significant decrease to income from operations in the period. For more information, see *Critical Accounting Policies and Estimates* DAC, VOBA, DSI and DFEL above.

For 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 2007 Form 10-K as updated by *Part II Item 1A. Risk Factors* and *Forward-Looking Statements* *Cautionary Language* in this report.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Insurance Fees						
Mortality, expense and other assessments	\$ 245	\$ 258	-5%	\$ 748	\$ 717	4%
Surrender charges	13	10	30%	32	30	7%
DFEL:						
Deferrals	(13)	(12)	-8%	(38)	(33)	-15%
Amortization, net of interest:						
Prospective unlocking assumption changes	(1)	(1)	0%	(1)	(1)	0%
Retrospective unlocking	3		NM	3	(1)	NM
Other amortization, net of interest	(1)	4	NM	5	12	-58%
Total insurance fees	\$ 246	\$ 259	-5%	\$ 749	\$ 724	3%

	As of September 30,		Change
	2008	2007	
Account Values			
Variable portion of variable annuities	\$ 49,982	\$ 58,293	-14%
Fixed portion of variable annuities	3,547	3,470	2%
Total variable annuities	53,529	61,763	-13%
Fixed annuities, including indexed	14,142	14,343	-1%
Fixed annuities ceded to reinsurers	(1,196)	(1,430)	16%
Total fixed annuities	12,946	12,913	0%
Total account values	\$ 66,475	\$ 74,676	-11%

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Averages						
Daily variable account values	\$ 54,717	\$ 55,827	-2%	\$ 55,929	\$ 52,922	6%
Daily S&P 500 Index®	1,255.42	1,489.60	-16%	1,325.03	1,470.65	-10%

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	2008	2007	Change	2008	2007	Change
Net Flows						
Variable portion of variable annuity deposits	\$ 1,672	\$ 2,247	-26%	\$ 5,602	\$ 6,543	-14%
Variable portion of variable annuity withdrawals	(1,216)	(1,296)	6%	(3,704)	(3,722)	0%
Variable portion of variable annuity net flows	456	951	-52%	1,898	2,821	-33%
Fixed portion of variable annuity deposits	896	746	20%	2,631	1,943	35%
Fixed portion of variable annuity withdrawals	(124)	(181)	31%	(358)	(486)	26%
Fixed portion of variable annuity net flows	772	565	37%	2,273	1,457	56%
Total variable annuity deposits	2,568	2,993	-14%	8,233	8,486	-3%
Total variable annuity withdrawals	(1,340)	(1,477)	9%	(4,062)	(4,208)	3%
Total variable annuity net flows	1,228	1,516	-19%	4,171	4,278	-3%
Fixed indexed annuity deposits	215	199	8%	789	550	43%
Fixed indexed annuity withdrawals	(114)	(59)	-93%	(299)	(182)	-64%
Fixed indexed annuity net flows	101	140	-28%	490	368	33%
Other fixed annuity deposits	165	286	-42%	388	541	-28%
Other fixed annuity withdrawals	(550)	(651)	16%	(1,335)	(2,002)	33%
Other fixed annuity net flows	(385)	(365)	-5%	(947)	(1,461)	35%
Total annuity deposits	2,948	3,478	-15%	9,410	9,577	-2%
Total annuity withdrawals	(2,004)	(2,187)	8%	(5,696)	(6,392)	11%
Total annuity net flows	\$ 944	\$ 1,291	-27%	\$ 3,714	\$ 3,185	17%

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB products. The attributed fees are the portion of rider charges used in the calculation of the embedded derivative and represent net valuation premium plus a margin that a theoretical market participant would include for risk/profit, including a non-performance risk factor required by SFAS 157. Net valuation premium represents a level portion of rider fees required to fund potential claims for the living benefit. Operating realized gain is the attributed fees less the net valuation premium, net of the associated amortization expense of DAC, VOBA, DSI and DFEL.

New deposits are an important component of our effort to grow the annuity business. Although deposits do not significantly impact current period income from operations, they are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. One of the key assumptions in pricing a product is the account persistency, which we refer to as the lapse rate. The lapse rate compares the amount of withdrawals to the average account values.

Comparison of the Three Months Ended September 30, 2008 to 2007

The decrease in insurance fees was due primarily to lower expense assessments attributable to a decrease in average daily variable annuity account values partially offset by expense assessments based on guaranteed amounts, which, in some cases, are above actual account values. Additionally, an increase in surrender charges and continued growth in rider elections partially offset the overall decline in insurance fees.

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Overall lapse rates for the three months ended September 30, 2008, were 9% compared to 10% for the same period in 2007.

The decrease in DFEL amortization, net of interest and excluding unlocking, was attributable primarily to declines in variable account values from unfavorable equity markets during 2008.

The three months ended September 30, 2008, had favorable retrospective unlocking due primarily to actual gross profits being lower than EGPs driven by lower maintenance and expense charges and lower equity market performance than our model projections assumed.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in insurance fees was due primarily to growth in average daily variable annuity account values. The increase in account values reflects cumulative positive net flows, which offset the reduction in variable account values from unfavorable equity markets during the first nine months of 2008. Additionally, an increase in surrender charges, continued growth in rider elections and an increase in the average expense assessment rates contributed to the overall increase in insurance fees.

Overall lapse rates for the nine months ended September 30, 2008, were 8% compared to 10% for the same period in 2007.

The nine months ended September 30, 2008, had favorable retrospective unlocking due primarily to lower maintenance and expense charges and lower equity market performance than our model projections assumed. The nine months ended September 30, 2007, had unfavorable retrospective unlocking due primarily to lower lapses and higher equity market performance than our model projections assumed.

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 222	\$ 224	-1%	\$ 675	\$ 691	-2%
Commercial mortgage loan prepayment and bond makewhole premiums ⁽¹⁾	1	2	-50%	2	7	-71%
Alternative investments ⁽²⁾		(1)	100%	(1)	1	NM
Surplus investments ⁽³⁾	19	24	-21%	57	78	-27%
Broker-dealer	1		NM	3	3	0%
Total net investment income	\$ 243	\$ 249	-2%	\$ 736	\$ 780	-6%
Interest Credited						
Amount provided to contract holders	\$ 187	\$ 186	1%	\$ 550	\$ 555	-1%
Opening balance sheet adjustment ⁽⁴⁾			NM		(4)	100%
DSI deferrals	(25)	(30)	17%	(76)	(81)	6%
Interest credited before DSI amortization	162	156	4%	474	470	1%
DSI amortization:						
Prospective unlocking assumption changes		(2)	100%		(2)	100%
Prospective unlocking model refinements		1	-100%		1	-100%
Retrospective unlocking	3		NM	2	(2)	200%
Other amortization	5	10	-50%	20	25	-20%
Total interest credited	\$ 170	\$ 165	3%	\$ 496	\$ 492	1%

(1) See Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums below for additional information.

(2) See Consolidated Investments Alternative Investments below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment.

(4) Net adjustment to the opening balance sheet of Jefferson-Pilot finalized in 2007.

	For the Three Months Ended September 30, 2008		Basis Point Change	For the Nine Months Ended September 30, 2007		Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.82%	5.82%		5.85%	5.83%	2
Commercial mortgage loan prepayment and bond make whole premiums	0.02%	0.05%	(3)	0.02%	0.06%	(4)
Alternative investments	0.00%	-0.03%	3	-0.01%	0.01%	(2)
Net investment income yield on reserves	5.84%	5.84%		5.86%	5.90%	(4)
Interest rate credited to contract holders	3.95%	3.77%	18	3.83%	3.71%	12
Interest rate spread	1.89%	2.07%	(18)	2.03%	2.19%	(16)

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	2008	2007	Change	2008	2007	Change
Average invested assets on reserves	\$ 15,615	\$ 15,749	-1%	\$ 15,691	\$ 16,109	-3%
Average fixed account values, including the fixed portion of variable	17,174	17,358	-1%	17,291	17,590	-2%
Net flows for fixed annuities, including the fixed portion of variable	488	340	44%	1,816	364	NM

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management account interest expense and interest on collateral divided by average invested assets on reserves. The average invested assets on reserves is calculated based upon total invested assets, excluding hedge derivatives and collateral. The average crediting rate is calculated as interest credited before DSI amortization, plus the immediate annuity reserve change (included within benefits) divided by the average fixed account values, including the fixed portion of variable, net of coinsured account values. Fixed account values reinsured under modified coinsurance agreements are included in account values for this calculation. Changes in commercial mortgage loan prepayments and bond makewhole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

We expect to manage the effect of spreads for near-term income from operations through a combination of rate actions and portfolio management. Our expectation includes the assumption that there are no significant changes in net flows in or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectation. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Comparison of the Three Months Ended September 30, 2008 to 2007

The decrease in net investment income related primarily to declines in surplus investment income, which was attributable to a decision to hold more cash, thereby lowering earnings, and declines in investment income on alternative investments and commercial mortgage loan prepayment and bond makewhole premiums.

The three months ended September 30, 2008, had unfavorable retrospective unlocking due primarily to lower maintenance and expense charges and lower equity market performance than our model projections assumed.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The decrease in investment income from fixed maturity securities, mortgage loans on real estate and other net investment income was primarily attributable to the decline in the average fixed account values, including the fixed portion of variable, driven primarily by transfers to variable account values in excess of net flows. The decrease in investment income on surplus and alternative investments was primarily attributable to less favorable results from our limited partnership investments.

The nine months ended September 30, 2008, had unfavorable retrospective unlocking due primarily to lower maintenance and expense charges and lower equity market performance than our model projections assumed. The nine months ended September 30, 2007, had favorable retrospective unlocking due primarily to lower lapses and higher equity market performance than our model projections assumed.

Our fixed annuity business includes products with crediting rates that are reset on an annual basis and are not subject to surrender charges. Account values for these products were \$5.0 billion as of September 30, 2008, with 41% already at their minimum guaranteed rates. The average crediting rates for these products were approximately 47 basis points in excess of average minimum guaranteed rates. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. In addition to the separate items identified in the interest rate spread table above, the other component of the interest rate credited to contract holders decreased due primarily to a roll-off of multi-year guarantee and annual reset annuities with higher interest rates.

Benefits

Benefits for this segment include changes in reserves on immediate annuity account values driven by premiums, death benefits paid and changes in reserves on guaranteed death benefits.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The increase in benefits was attributable to an increase in reserves for single premium immediate annuities, which resulted in a corresponding increase in insurance premiums. Additionally, benefits increased due to an unfavorable variance in the SOP 03-1 benefit ratio unlocking, which was offset by changes in the value of the derivative included in operating realized gain.

On August 15, 2007, we entered into a reinsurance arrangement with Swiss Re covering *Lincoln SmartSecurity*[®] Advantage, our GWB rider related to our variable annuity products. For additional information about this agreement, refer to *Reinsurance* in this report.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	\$ 161	\$ 188	-14%	\$ 513	\$ 520	-1%
General and administrative expenses	83	82	1%	243	231	5%
Taxes, licenses and fees	5	5	0%	21	17	24%
Total expenses incurred, excluding broker-dealer DAC and VOBA deferrals	249 (170)	275 (196)	-9% 13%	777 (534)	768 (543)	1% 2%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	79	79	0%	243	225	8%
DAC and VOBA amortization, net of interest:						
Prospective unlocking assumption changes	(2)	(28)	93%	(2)	(28)	93%
Prospective unlocking model refinements		16	-100%		16	-100%
Retrospective unlocking	35	(7)	NM	35	(21)	267%
Other amortization, net of interest	63	103	-39%	241	304	-21%
Broker-dealer expenses incurred:						
Commissions	60	72	-17%	191	212	-10%
General and administrative expenses	18	20	-10%	62	60	3%
Taxes, licenses and fees	1	1	0%	4	4	0%
Total underwriting, acquisition, insurance and other expenses	\$ 254	\$ 256	-1%	\$ 774	\$ 772	0%

DAC and VOBA deferrals

As a percentage of sales/deposits	5.8%	5.6%	5.7%	5.7%
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Commissions and other costs that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. We have certain trail commissions that are based upon account values that are expensed as incurred rather than being deferred and amortized.

Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. These expenses are more than offset by increases to other income.

Comparison of the Three Months Ended September 30, 2008 to 2007

The decrease in expenses incurred, excluding broker-dealer, was attributable primarily to the decrease in commissions from lower sales and lower incentive compensation accruals as a result of production performance relative to planned goals.

The decrease in DAC and VOBA amortization, net of interest and excluding unlocking, was attributable primarily to lower emergence of gross profits.

The decrease in broker-dealer commissions was due to lower sales of non-proprietary products.

The third quarter of 2008 had favorable prospective unlocking assumption changes related primarily to maintenance expenses and fee margins partially offset by lapses. The third quarter of 2007 had favorable prospective unlocking assumption changes related primarily to favorable interest rates, maintenance expense and account retention assumptions partially offset by unfavorable asset-based commission assumptions.

The third quarter of 2008 had unfavorable retrospective unlocking due primarily to lower maintenance and expense charges and lower equity market performance than our model projections assumed. The third quarter of 2007 had favorable retrospective unlocking due primarily to lower lapses and higher equity market performance than our model projections assumed.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in expenses incurred, excluding broker-dealer, was attributable primarily to increased distribution expenses and Federal Insurance Contributions Act taxes associated with the expansion of the wholesaling force in LFD, partially offset by lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals.

The decrease in DAC and VOBA amortization, net of interest and excluding unlocking, was attributable primarily to declines in variable account values from unfavorable equity markets during 2008.

The decrease in broker-dealer commissions was due to lower sales of non-proprietary products.

See the discussion above regarding prospective unlocking in 2008 and 2007.

The first nine months of 2008 had unfavorable retrospective unlocking due primarily to lower maintenance and expense charges and lower equity market performance than our model projections assumed. The first nine months of 2007 had favorable retrospective unlocking due primarily to lower lapses and higher equity market performance than our model projections assumed.

Federal Income Taxes

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The effective federal income tax rate decreased to 6% and 18% for the three and nine months ended September 30, 2008, from 26% and 25% for the same periods in 2007. Federal income tax expense for the three and nine months ended September 30, 2008, included a reduction of \$21 million related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to a \$2 million unfavorable tax return true-up and other items for the same periods in 2007. For additional information on our effective tax rates, see Note 4 to our consolidated financial statements.

Retirement Solutions Defined Contribution**Income from Operations**

Details underlying the results for Retirement Solutions Defined Contribution (in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance fees	\$ 56	\$ 65	-14%	\$ 178	\$ 192	-7%
Net investment income	181	173	5%	527	535	-1%
Other revenues and fees	4	5	-20%	13	15	-13%
Total operating revenues	241	243	-1%	718	742	-3%
Operating Expenses						
Interest credited	107	104	3%	320	314	2%
Underwriting, acquisition, insurance and other expenses	77	85	-9%	229	237	-3%
Total operating expenses	184	189	-3%	549	551	0%
Income from operations before taxes	57	54	6%	169	191	-12%
Federal income taxes	15	13	15%	45	53	-15%
Income from operations	\$ 42	\$ 41	2%	\$ 124	\$ 138	-10%

Comparison of the Three Months Ended September 30, 2008 to 2007

Income from operations for this segment modestly increased due primarily to the following:

Higher net investment income attributable primarily to the growth in the average fixed account values, including the fixed portion of variable, driven by transfers from variable to fixed, and more favorable results from commercial mortgage loan prepayments and bond makewhole premiums and investment income on alternative investments;

Lower underwriting, acquisition, insurance and other expenses due in part to the implementation of several expense management controls and practices that are focused on aggressively managing expenses and lower incentive compensation accruals as a result of production performance relative to planned goals; and

A \$2 million unfavorable prospective unlocking from assumption changes of DAC and VOBA in 2007.

The increase in income from operations was partially offset by lower insurance fees driven by lower average daily account values due to unfavorable equity markets. In addition, the third quarters of 2008 and 2007 had \$2 million unfavorable retrospective unlocking of DAC, VOBA and DSI.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

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Lower insurance fees driven by lower average daily account values due to unfavorable equity markets; and

Lower net investment income attributable to less favorable investment income on surplus and alternative investments.
The decrease in income from operations was partially offset by the following:

Lower underwriting, acquisition, insurance and other expenses due in part to the implementation of several expense management controls and practices that are focused on aggressively managing expenses and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals; and

The impact of prospective unlocking discussed above.
In addition, the first nine months of 2008 and 2007 had \$3 million unfavorable retrospective unlocking of DAC, VOBA and DSI.

The foregoing items are discussed further below following Impact of Current Market Conditions.

Impact of Current Market Conditions

The October 2008 daily average of the S&P 500 Index[®] declined 17% from its value as of September 30, 2008, negatively impacting our variable account values. Consequently, we expect lower earnings in the fourth quarter as a result of October's results, including the following:

Lower variable account values, which will reduce expense assessment revenue, partially offset by lower asset-based expenses;

Higher unfavorable retrospective unlocking due to lower equity market performance than our model projections assumed; and

If equity markets do not materially improve over the remainder of the fourth quarter, we may unlock our amortization model assumption for equity market returns for DAC, VOBA and DSI, resulting in a significant increase to amortization in the period. For more information, see Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – above.

Due to a change in business mix, a substantial increase in new deposit production in other products is necessary to maintain earnings at current levels.

For 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 2007 Form 10-K as updated by Part II – Item 1A. Risk Factors and Forward-Looking Statements – Cautionary Language in this report.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Insurance Fees						
Annuity expense assessments	\$ 50	\$ 59	-15%	\$ 159	\$ 174	-9%
Mutual fund fees	5	4	25%	14	12	17%
Total expense assessments	55	63	-13%	173	186	-7%
Surrender charges	1	2	-50%	5	6	-17%
Total insurance fees	\$ 56	\$ 65	-14%	\$ 178	\$ 192	-7%
Average Daily Variable Account Values	\$ 15,582	\$ 18,162	-14%	\$ 16,369	\$ 18,043	-9%
Average Daily S&P 500 Index[®]	1,255.42	1,489.60	-16%	1,325.03	1,470.65	-10%

	As of September 30,		Change
	2008	2007	
Account Values			
Variable portion of variable annuities	\$ 13,480	\$ 18,580	-27%
Fixed portion of variable annuities	6,114	5,948	3%
Total variable annuities	19,594	24,528	-20%

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Fixed annuities	5,304	4,943	7%
Total annuities	24,898	29,471	-16%
Mutual funds	7,675	7,165	7%
Total annuities and mutual funds	\$ 32,573	\$ 36,636	-11%

Account Value Roll Forward By Product	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Total Micro Small Segment:						
Balance at beginning-of-period	\$ 7,286	\$ 8,012	-9%	\$ 7,798	\$ 7,535	3%
Gross deposits	389	391	-1%	1,276	1,229	4%
Withdrawals and deaths	(465)	(481)	3%	(1,429)	(1,366)	-5%
Net flows	(76)	(90)	16%	(153)	(137)	-12%
Transfers between fixed and variable accounts			NM	(12)	(5)	NM
Inter-product transfer ⁽¹⁾	(653)		NM	(653)		NM
Investment increase and change in market value	(767)	155	NM	(1,190)	684	NM
Balance at end-of-period	\$ 5,790	\$ 8,077	-28%	\$ 5,790	\$ 8,077	-28%
Total Mid Large Segment:						
Balance at beginning-of-period	\$ 9,985	\$ 8,555	17%	\$ 9,463	\$ 6,975	36%
Gross deposits	687	861	-20%	2,203	2,162	2%
Withdrawals and deaths	(222)	(263)	16%	(679)	(512)	-33%
Net flows	465	598	-22%	1,524	1,650	-8%
Transfers between fixed and variable accounts	(4)	(51)	92%	(44)	(14)	NM
Inter-product transfer ⁽¹⁾	653		NM	653		NM
Investment increase and change in market value	(789)	130	NM	(1,286)	621	NM
Balance at end-of-period	\$ 10,310	\$ 9,232	12%	\$ 10,310	\$ 9,232	12%
Total Multi-Fund[®] and Other Variable Annuities:						
Balance at beginning-of-period	\$ 17,771	\$ 19,396	-8%	\$ 18,797	\$ 19,146	-2%
Gross deposits	258	273	-5%	827	894	-7%
Withdrawals and deaths	(554)	(648)	15%	(1,588)	(1,979)	20%
Net flows	(296)	(375)	21%	(761)	(1,085)	30%
Transfers between fixed and variable accounts	(1)	(1)		(1)	(5)	80%
Inter-segment transfer			NM	295		NM
Investment increase and change in market value	(1,001)	307	NM	(1,857)	1,271	NM
Balance at end-of-period	\$ 16,473	\$ 19,327	-15%	\$ 16,473	\$ 19,327	-15%
Total Annuities and Mutual Funds:						
Balance at beginning-of-period	\$ 35,042	\$ 35,963	-3%	\$ 36,058	\$ 33,656	7%
Gross deposits	1,334	1,525	-13%	4,306	4,285	0%
Withdrawals and deaths	(1,241)	(1,392)	11%	(3,696)	(3,857)	4%
Net flows	93	133	-30%	610	428	43%
Transfers between fixed and variable accounts	(5)	(52)	90%	(57)	(24)	NM
Inter-segment transfer			NM	295		NM
Investment increase and change in market value	(2,557)	592	NM	(4,333)	2,576	NM
Balance at end-of-period ⁽²⁾	\$ 32,573	\$ 36,636	-11%	\$ 32,573	\$ 36,636	-11%

⁽¹⁾ The Lincoln Employee 401(k) Plan transferred from DIRECTORSM to Lincoln Alliance[®] effective September 30, 2008.

⁽²⁾ Includes mutual fund account values. Mutual funds are not included on our Consolidated Balance Sheets.

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Net Flows						
Variable portion of variable annuity deposits	\$ 532	\$ 564	-6%	\$ 1,767	\$ 1,795	-2%
Variable portion of variable annuity withdrawals	(723)	(810)	11%	(2,202)	(2,370)	7%
Variable portion of variable annuity net flows	(191)	(246)	22%	(435)	(575)	24%
Fixed portion of variable annuity deposits	94	84	12%	279	272	3%
Fixed portion of variable annuity withdrawals	(228)	(235)	3%	(620)	(704)	12%
Fixed portion of variable annuity net flows	(134)	(151)	11%	(341)	(432)	21%
Total variable annuity deposits	626	648	-3%	2,046	2,067	-1%
Total variable annuity withdrawals	(951)	(1,045)	9%	(2,822)	(3,074)	8%
Total variable annuity net flows	(325)	(397)	18%	(776)	(1,007)	23%
Fixed annuity deposits	196	221	-11%	623	565	10%
Fixed annuity withdrawals	(183)	(215)	15%	(541)	(520)	-4%
Fixed annuity net flows	13	6	117%	82	45	82%
Total annuity deposits	822	869	-5%	2,669	2,632	1%
Total annuity withdrawals	(1,134)	(1,260)	10%	(3,363)	(3,594)	6%
Total annuity net flows	(312)	(391)	20%	(694)	(962)	28%
Mutual fund deposits	512	656	-22%	1,637	1,653	-1%
Mutual fund withdrawals	(107)	(132)	19%	(333)	(263)	-27%
Mutual fund net flows	405	524	-23%	1,304	1,390	-6%
Total annuity and mutual fund deposits	1,334	1,525	-13%	4,306	4,285	0%
Total annuity and mutual fund withdrawals	(1,241)	(1,392)	11%	(3,696)	(3,857)	4%
Total annuity and mutual fund net flows	\$ 93	\$ 133	-30%	\$ 610	\$ 428	43%

We charge expense assessments to cover insurance and administrative expenses. Expense assessments are generally equal to a percentage of the daily variable account values. Our expense assessments include fees we earn for the services that we provide to our mutual fund programs. In addition, we collect surrender charges when contract holders surrender their contracts during the surrender charge periods to protect us from premature withdrawals.

New deposits are an important component of our effort to grow our business. Although deposits do not significantly impact current period income from operations, they are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. One of the key assumptions in pricing a product is the account persistency, which we refer to as the lapse rate. The lapse rate compares the amount of withdrawals to the average account values.

We serve the mid-large case 401(k) and 403(b) markets with our mutual fund programs. Our programs bundle our fixed annuity products with mutual funds, along with record keeping and employee education components. The amounts associated with the mutual fund programs are not included in the assets or liabilities reported on our Consolidated Balance Sheets.

The distribution model for the micro-small case 401(k) market is focused on driving growth through financial intermediaries. As of September 30, 2008, we had approximately 70 wholesalers in place to support this business and plan for additional growth during the remainder

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of 2008. We are beginning to experience an increase in new business activity as a result of building our own wholesaling force for this market.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The decrease in expense assessments was driven by lower average daily variable annuity account values due to unfavorable equity markets, customer transfers out of variable and into fixed account values and an overall shift in business mix toward products with lower expense assessment rates.

Overall lapse rates for our annuity products for the three and nine months ended September 30, 2008, were 14% and 15%, respectively, compared to 16% and 15%, respectively, for the same periods in 2007. The return on assets, calculated as income

divided by average assets under management, for *Multi-Fund*[®] and Other Variable Annuities, our oldest block of annuity business, is more than two times that of new deposits. Therefore, a substantial increase in new deposit production in other products is necessary to maintain earnings at current levels.

As of September 30, 2008, \$12.1 billion, or 62%, of variable annuity contract account values contained a return of premium death benefit feature, and the net amount at risk related to these contracts was \$115 million. The remaining variable annuity contract account values contain no GDB feature.

Additionally, deposits in our mid-large segment (including mutual fund program fixed annuity deposits) increased for the nine months ended September 30, 2008, compared to the same period in 2007 due to an increase in the number of mutual fund program accounts, which resulted in both an increase in initial deposits and an increase in ongoing periodic deposits.

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 165	\$ 161	2%	\$ 489	\$ 485	1%
Commercial mortgage loan prepayment and bond makewhole premiums ⁽¹⁾	5	2	150%	7	5	40%
Alternative investments ⁽²⁾		(3)	100%	(2)	2	NM
Surplus investments ⁽³⁾	11	13	-15%	33	43	-23%
Total net investment income	\$ 181	\$ 173	5%	\$ 527	\$ 535	-1%
Interest Credited	\$ 107	\$ 104	3%	\$ 320	\$ 314	2%

(1) See Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums below for additional information.

(2) See Consolidated Investments Alternative Investments below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment.

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Basis Point Change	2008	2007	Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.94%	6.04%	(10)	5.91%	6.04%	(13)
Commercial mortgage loan prepayment and bond makewhole premiums	0.17%	0.07%	10	0.08%	0.06%	2
Alternative investments	-0.01%	-0.10%	9	-0.02%	0.02%	(4)
Net investment income yield on reserves	6.10%	6.01%	9	5.97%	6.12%	(15)
Interest rate credited to contract holders	3.77%	3.84%	(7)	3.79%	3.82%	(3)

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Interest rate spread	2.33%	2.17%	16	2.18%	2.30%	(12)
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Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Average invested assets on reserves	\$ 11,146	\$ 10,666	5%	\$ 11,034	\$ 10,721	3%
Average fixed account values, including the fixed portion of variable	11,321	10,905	4%	11,233	10,944	3%
Net flows for fixed annuities, including the fixed portion of variable	(121)	(145)	17%	(259)	(387)	33%

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management account interest expense and interest on collateral, divided by average invested assets on reserves. The average invested assets on reserves are calculated based upon total invested assets, excluding hedge derivatives. The average crediting rate is calculated as interest credited before DSI amortization, plus the immediate annuity reserve change (included within benefits), divided by the average fixed account values, including the fixed portion of variable annuities. Commercial mortgage loan prepayments and bond makewhole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Comparison of the Three Months Ended September 30, 2008 to 2007

The increase in fixed maturity securities, mortgage loans on real estate and other net investment income was attributable primarily to the growth in the average fixed account values, including the fixed portion of variable, driven by transfers from variable to fixed, partially offset by the yield decline due to lower reinvestment rates. Towards the end of the third quarter of 2008, this segment held less cash than in previous periods in an effort to be more invested in higher yielding assets.

The increase in investment income on alternative investments was driven primarily by more favorable results from our limited partnership investments. Earnings on investments supporting statutory surplus were negatively impacted by unfavorable equity markets.

The increase in interest credited was primarily attributable to the growth in the average fixed account values, including the fixed portion of variable, driven by transfers from variable to fixed. In response to the competitive environment, during the third quarter of 2008, we reduced crediting rates by 10 basis points for *Multi-Fund*[®] products and *Lincoln Alliance*[®] program fixed annuity products and increased new money rates by 25 basis points for *Multi-Fund*[®] products. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The decrease in investment income on surplus and alternative investments was driven by less favorable results from our limited partnership investments.

The modest increase in fixed maturity securities, mortgage loans on real estate and other net investment income was attributable primarily to the growth in the average fixed account values, including the fixed portion of variable, driven by transfers from variable to fixed, partially offset by the yield decline due to lower reinvestment rates.

The increase in interest credited was attributable primarily to the growth in the average fixed account values, including the fixed portion of variable, driven by transfers from variable account values. The 10 basis point crediting rate reduction discussed above was the first such rate change in 2008, while the 25 basis point increase in new money rates followed a reduction in the previous quarter. We plan to take further crediting rate action in the fourth quarter of 2008, with the expectation of maintaining stable spreads over the near term, excluding the effects of prepayment and makewhole premiums.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	\$ 17	\$ 20	-15%	\$ 56	\$ 60	-7%
General and administrative expenses	53	60	-12%	158	164	-4%
Taxes, licenses and fees	3	2	50%	10	12	-17%
Total expenses incurred	73	82	-11%	224	236	-5%
DAC deferrals	(20)	(24)	17%	(66)	(68)	3%
Total expenses recognized before amortization	53	58	-9%	158	168	-6%
DAC and VOBA amortization, net of interest:						
Prospective unlocking assumption changes		3	-100%		3	-100%
Retrospective unlocking	3	2	50%	5	5	0%
Other amortization, net of interest	21	22	-5%	66	61	8%
Total underwriting, acquisition, insurance and other expenses	\$ 77	\$ 85	-9%	\$ 229	\$ 237	-3%

DAC deferrals

As a percentage of sales/deposits 1.5% 1.6% 1.5% 1.6%

Commissions and other costs, that vary with and are related primarily to the production of new business, excluding those associated with our mutual fund products, are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. We do not pay commissions on sales of our mutual fund products, and distribution expenses associated with the sale of these mutual fund products are not deferred and amortized, as is the case for our insurance products.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The decrease in expenses incurred was due in part to the implementation of several expense management controls and practices that are focused on aggressively managing expenses and lower incentive compensation accruals as a result of production performance relative to planned goals. Additionally, lower earnings for the nine months ended September 30, 2008, contributed to the decrease in incentive compensation accruals. The decrease in commissions was primarily a result of lower sales.

The third quarter and first nine months of 2007 had unfavorable prospective unlocking due to assumption changes primarily reflecting higher lapse rates and separate account fees partially offset by lower expenses.

The third quarter and first nine months of 2008 and 2007 had unfavorable retrospective unlocking due primarily to higher lapses and lower equity market performance than our model projections assumed.

RESULTS OF 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 our Executive Benefits business's corporate-owned UL and VUL (COLI) and bank-owned UL and VUL (BOLI) 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.

For 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 2007 Form 10-K as updated by Part II Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language in this report.

Insurance Solutions Life Insurance

Income from Operations

Details underlying the results for Insurance Solutions Life Insurance (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance premiums	\$ 91	\$ 85	7%	\$ 267	\$ 261	2%
Insurance fees	449	469	-4%	1,380	1,283	8%
Net investment income	522	496	5%	1,541	1,553	-1%
Other revenues and fees	10	6	67%	22	24	-8%
Total operating revenues	1,072	1,056	2%	3,210	3,121	3%
Operating Expenses						
Interest credited	305	293	4%	902	875	3%
Benefits	398	266	50%	1,000	780	28%
Underwriting, acquisition, insurance and other expenses	167	227	-26%	621	639	-3%
Total operating expenses	870	786	11%	2,523	2,294	10%
Income from operations before taxes	202	270	-25%	687	827	-17%
Federal income taxes	65	88	-26%	229	279	-18%
Income from operations	\$ 137	\$ 182	-25%	\$ 458	\$ 548	-16%

Comparison of the Three Months Ended September 30, 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

A \$9 million unfavorable retrospective unlocking of DAC, VOBA, DFEL, and reserves for life insurance products with secondary guarantees in 2008 compared to an \$11 million favorable retrospective unlocking in 2007; and

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A \$21 million unfavorable prospective unlocking (a \$34 million unfavorable unlocking from model refinements net of a \$13 million favorable unlocking from assumption changes) of DAC, VOBA, DFEL and reserves for life insurance products with secondary guarantees in 2008 compared to a \$4 million favorable prospective unlocking (a \$12 million favorable unlocking from assumption changes net of an \$8 million unfavorable unlocking from model refinements) in 2007.

The \$9 million unfavorable retrospective unlocking and the \$21 million unfavorable prospective unlocking to DAC, VOBA, DFEL and reserves for life insurance products with secondary guarantees discussed above resulted in an additional unfavorable earnings impact for the current period of \$7 million that will recur in future periods.

The decrease in income from operations was partially offset by higher investment income from growth in fixed product account values driven by positive net flows and more favorable results from our alternative investments.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Income from operations for this segment decreased due primarily to the following:

A \$17 million unfavorable retrospective unlocking of DAC, VOBA, and DFEL in 2008 compared to a \$23 million favorable retrospective unlocking in 2007;

The impact of prospective unlocking discussed above;

Higher death claims in 2008 and lower benefits in the first quarter of 2007 partially related to a reduction in benefits related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot; and

Lower net investment income from a reduction in statutory reserves as a result of the merger of several of our insurance subsidiaries and certain assumption changes in the fourth quarter of 2007, capital transactions providing relief from AG38 reserve requirements in the fourth quarter of 2007 and less favorable results from our investment income on alternative investments and prepayment and bond makewhole premiums.

The decrease in income from operations was partially offset by growth in insurance fees driven by an increase in business in force as a result of new sales since September 30, 2007, and favorable persistency partially offset by the impact on insurance fees from lower sales in 2008 compared to 2007 and adjustments during the second quarter of 2007 resulting from adjusting account values for certain of our life insurance policies and modifying the accounting for certain of our life insurance policies.

The foregoing items are discussed further below.

Insurance Premiums

Insurance premiums relate to traditional products and are a function of the rates priced into the product and the level of insurance in force. Insurance in force, in turn, is driven by sales, persistency and mortality experience.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Traditional in-force face amount, and thus premiums, remained relatively flat.

Insurance Fees

Details underlying insurance fees, sales, net flows, account values and in-force face amount (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Insurance Fees						
Mortality assessments	\$ 332	\$ 312	6%	\$ 982	\$ 903	9%
Expense assessments	178	160	11%	520	472	10%
Surrender charges	16	14	14%	46	45	2%
DFEL:						
Deferrals	(97)	(85)	-14%	(276)	(265)	-4%
Amortization, net of interest:						
Prospective unlocking assumption changes	(4)		NM	(4)		NM
Prospective unlocking model refinements	(25)	26	NM	(25)	26	NM

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Retrospective unlocking	12	1	NM	27	(8)	NM
Other amortization, net of interest	37	41	-10%	110	110	0%
Total insurance fees	\$ 449	\$ 469	-4%	\$ 1,380	\$ 1,283	8%

72

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Sales by Product						
UL:						
Excluding <i>MoneyGuard</i> [®]	\$ 144	\$ 144	0%	\$ 382	\$ 455	-16%
<i>MoneyGuard</i> [®]	14	11	27%	37	28	32%
Total UL	158	155	2%	419	483	-13%
VUL	12	18	-33%	39	55	-29%
COLI and BOLI	13	18	-28%	54	52	4%
Term/whole life	7	7	0%	18	25	-28%
Total sales	\$ 190	\$ 198	-4%	\$ 530	\$ 615	-14%

Net Flows

Deposits	\$ 1,082	\$ 1,032	5%	\$ 3,276	\$ 3,219	2%
Withdrawals and deaths	(392)	(403)	3%	(1,258)	(1,356)	7%
Net flows	\$ 690	\$ 629	10%	\$ 2,018	\$ 1,863	8%
Contract holder assessments	\$ 705	\$ 623	13%	\$ 2,060	\$ 1,845	12%

	As of September 30,		
	2008	2007	Change
Account Values			
UL	\$ 24,951	\$ 23,896	4%
VUL	5,056	6,104	-17%
Interest-sensitive whole life	2,276	2,266	0%
Total account values	\$ 32,283	\$ 32,266	0%
In-Force Face Amount			
UL and other	\$ 306,293	\$ 294,833	4%
Term insurance	233,671	236,414	-1%
Total in-force face amount	\$ 539,964	\$ 531,247	2%

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to whole life and interest-sensitive products.

Sales in the table above and as discussed below were reported as follows:

UL (excluding linked-benefit products) and VUL (including COLI and BOLI) first year commissionable premiums plus 5% of excess premiums received, including an adjustment for internal replacements at approximately 50% of target;

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MoneyGuard[®] (our linked-benefit product) 15% of premium deposits; and

Whole life and term 100% of first year paid premiums.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant impact on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the last half of the year with the fourth quarter being our strongest; however, expectations for this year are muted given the current economic conditions.

We have screening procedures to identify sales that we believe have characteristics associated with stranger-originated life insurance in order to prevent policies with these characteristics from being issued. However, accurate identification of these policies can be difficult, and we continue to modify our screening procedures. We believe that our sales of UL products include some sales with stranger-originated life insurance characteristics. We expect no significant impact to our profitability; however, returns on UL business sold as part of stranger-originated designs are believed to be lower than traditional estate planning UL sales due in part to no expected lapses.

UL and VUL products with secondary guarantees represented approximately 33% of interest-sensitive life insurance in force as of September 30, 2008, and approximately 74% and 69% of sales for the three and nine months ended September 30, 2008. AG38 imposes additional statutory reserve requirements for these products. See *Review of Consolidated Financial Condition Liquidity and Capital Resources Sources of Liquidity and Cash Flow* for further information on the manner in which we reinsure our AG38 reserves.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The growth in mortality and expense assessments was attributable primarily to increased business in force. Life insurance in force and account values grew from new sales since September 30, 2007, an increase in the average attained age of the in-force block (which also led to increases in benefits as discussed below) and favorable persistency.

The third quarter of 2008 had unfavorable prospective unlocking assumption changes, which reflected primarily improved investment spreads, lower death claims, improved lapse and expense rates and adjustments to the reserves for products with secondary guarantees.

The third quarter of 2008 had favorable retrospective unlocking due primarily to lower premiums received and higher death claims, partially offset by higher investment income on alternative investments and prepayment and bond makewhole premiums and lower maintenance expenses than our model projections assumed.

The first nine months of 2008 had favorable retrospective unlocking due primarily to lower premiums received and higher death claims than our model projections assumed and model adjustments on certain life insurance policies, partially offset by lower maintenance expenses than our model projections assumed. The first nine months of 2007 had unfavorable retrospective unlocking due primarily to higher persistency, higher investment income on alternative investments and prepayment and bond makewhole premiums and lower maintenance expenses than our model projections assumed, partially offset by the impact of the correction to account values in the second quarter of 2007 mentioned above.

Net Investment Income and Interest Credited

Details underlying net investment income, interest credited (in millions) and our interest rate spread were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 478	\$ 468	2%	\$ 1,425	\$ 1,399	2%
Commercial mortgage loan prepayment and bond makewhole premiums ⁽¹⁾	1	6	-83%	14	27	-48%
Alternative investments ⁽²⁾	21	(2)	NM	35	48	-27%
Surplus investments ⁽³⁾	22	24	-8%	67	79	-15%
Total net investment income	\$ 522	\$ 496	5%	\$ 1,541	\$ 1,553	-1%
Interest Credited	\$ 305	\$ 293	4%	\$ 902	\$ 875	3%

(1) See *Consolidated Investments Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums* below for additional information.

(2) See *Consolidated Investments Alternative Investments* below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the impact of investment income on alternative investments for such assets that are held in the surplus portfolios versus the product portfolios.

	For the Three Months Ended September 30, 2008		Basis Point Change	For the Nine Months Ended September 30, 2008		Basis Point Change
Interest Rate Yields and Spread						
<u>Attributable to interest sensitive products:</u>						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.92%	6.01%	(9)	5.94%	6.07%	(13)
Commercial mortgage loan prepayment and bond makewhole premiums	0.02%	0.08%	(6)	0.06%	0.13%	(7)
Alternative investments	0.31%	-0.01%	32	0.18%	0.25%	(7)
Net investment income yield on reserves	6.25%	6.08%	17	6.18%	6.45%	(27)
Interest rate credited to contract holders	4.35%	4.43%	(8)	4.36%	4.45%	(9)
Interest rate spread	1.90%	1.65%	25	1.82%	2.00%	(18)
<u>Attributable to traditional products:</u>						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	6.06%	6.15%	(9)	6.13%	6.27%	(14)
Commercial mortgage loan prepayment and bond makewhole premiums	0.00%	0.09%	(9)	0.04%	0.08%	(4)
Alternative investments	-0.01%	-0.06%	5	-0.01%	0.01%	(2)
Net investment income yield on reserves	6.05%	6.18%	(13)	6.16%	6.36%	(20)

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended September 30, 2008		Change	For the Nine Months Ended September 30, 2008		Change
Averages						
<u>Attributable to interest-sensitive products:</u>						
Invested assets on reserves	\$ 27,398	\$ 26,071	5%	\$ 26,773	\$ 25,636	4%
Account values universal and whole life	27,713	26,013	7%	27,063	25,753	5%
<u>Attributable to traditional products:</u>						
Invested assets on reserves	4,814	5,040	-4%	5,137	5,023	2%

A portion of the investment income earned for this segment is credited to contract holder accounts. Invested assets will typically grow at a faster rate than account values because of the AG38 reserve requirements, which cause statutory reserves to grow at an accelerated rate. Invested assets are based upon the statutory reserve liabilities and are therefore affected by various reserve adjustments, primarily the result of the merger of several of our insurance subsidiaries, the modification of accounting for certain of our life insurance policies, and by capital transactions providing relief from AG38 reserve requirements, which leads to a transfer of invested assets from this segment to Other Operations for use in other corporate purposes. We expect to earn a spread between what we earn on the underlying general account investments and what we credit to our contract holders' accounts. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate on interest sensitive products. The yield on invested assets on reserves is calculated as net investment income, excluding amounts attributable to our surplus investments and reverse repurchase agreement interest expense, divided by average invested assets on reserves. In addition, we exclude the impact of earnings from affordable housing tax credit securities, which is reflected as a reduction to federal income tax expense, from our spread calculations. Traditional products use interest income to build the policy reserves. Commercial mortgage loan prepayments and bond makewhole premiums and investment income on alternative investments can vary significantly from period to period due to a number of factors, and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Comparison of the Three Months Ended September 30, 2008 to 2007

The increase in fixed maturity securities, mortgage loans on real estate and other net investment income was due to continued growth of business in force partially offset by the impact of reductions in statutory reserves. The increase in investment income on alternative investments was

driven primarily by favorable results from limited partnership investments. Higher AG38 statutory

reserve liabilities on UL policies with secondary guarantees contributed to invested asset growth. At June 30, 2007, we reduced statutory reserves related to our secondary guarantee UL products by approximately \$150 million, which has reduced the amount of net investment income allocated to this segment by \$2 million per quarter. This statutory reserve reduction related to modifying the accounting for certain of our life insurance policies. In October 2007, we released approximately \$300 million of capital that had previously supported our UL products with secondary guarantees as a result of executing on a capital transaction to provide AG38 relief. This release of capital lowered the level of assets supporting this business and has reduced net investment income by approximately \$5 million per quarter. As of December 31, 2007, we reduced statutory reserves related primarily to legal entity consolidation by \$344 million, which has reduced the amount of net investment income allocated to this segment by approximately \$5 million in the first quarter of 2008. This reduction in statutory reserves was primarily a result of the merger of several of our insurance subsidiaries.

The increase in interest credited was attributable primarily to growth in UL account values. On June 1, 2007, we implemented a 10 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which has increased spreads approximately 5 basis points. On June 1, 2008, we implemented a 10 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which has increased spreads approximately 5 basis points.

At the end of the third quarter of 2008, new money rates exceeded the portfolio rate by roughly 24 basis points. At the end of the third quarter of 2007, new money rates exceeded the portfolio rate by roughly 17 basis points. As of September 30, 2008, 45% of interest-sensitive account values have crediting rates at contract guaranteed levels, and 39% have crediting rates within 50 basis points of contractual guarantees. Going forward, we expect to be able to manage the effects of spreads on near-term income from operations through a combination of rate actions and portfolio management, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in fixed maturity securities, mortgage loans on real estate and other net investment income was due to continued growth of business in force partially offset by the impact of reductions in statutory reserves. The decrease in investment income on alternative investments was driven primarily by less favorable results from limited partnership investments.

Benefits

Details underlying benefits (dollars in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Benefits						
Death claims direct and assumed	\$ 536	\$ 430	25%	\$ 1,612	\$ 1,270	27%
Death claims ceded	(249)	(172)	-45%	(722)	(532)	-36%
Reserves released on death	(80)	(69)	-16%	(271)	(160)	-69%
Net death benefits	207	189	10%	619	578	7%
Change in reserves for products with secondary guarantees:						
Prospective unlocking assumption changes	8	(3)	NM	8	(3)	NM
Prospective unlocking model refinements	76	3	NM	76	3	NM
Other	38	19	100%	92	37	149%
Other benefits ⁽¹⁾	69	58	19%	205	165	24%
Total benefits	\$ 398	\$ 266	50%	\$ 1,000	\$ 780	28%
Death claims per \$1,000 of inforce	1.47	1.33	11%	1.46	1.36	7%

⁽¹⁾ Other benefits includes primarily traditional product changes in reserves and dividends.

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Benefits for this segment include death claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in reserves for our products with secondary guarantees. The reserve for secondary guarantees is impacted by changes in expected future trends of claims and assessments causing unlocking adjustments to this liability similar to DAC, VOBA and DFEL.

Comparison of the Three Months Ended September 30, 2008 to 2007

The increase in benefits, excluding unlocking, was due primarily to an increase in reserves for products with secondary guarantees from continued growth of business in force and the effects of model refinements and higher mortality due to an increase in the average attained age of the in-force block (which also led to increases in insurance fees as discussed above).

The third quarter of 2008 had unfavorable prospective unlocking assumption changes, which reflected primarily improved lapse rates and improved investment spreads.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in benefits, excluding unlocking, was due primarily to an increase in reserves for products with secondary guarantees from continued growth of business in force and the effects of model refinements and higher mortality due to an increase in the average attained age of the in-force block (which also led to increases in insurance fees as discussed above) and by a decrease to benefits in the first quarter of 2007 related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot.

The nine months ended September 30, 2008, had unfavorable prospective unlocking assumption changes, discussed above.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	\$ 209	\$ 220	-5%	\$ 584	\$ 672	-13%
General and administrative expenses	102	107	-5%	308	335	-8%
Taxes, licenses and fees	36	27	33%	95	90	6%
Total expenses incurred	347	354	-2%	987	1,097	-10%
DAC and VOBA deferrals	(261)	(277)	6%	(744)	(852)	13%
Total expenses recognized before amortization	86	77	12%	243	245	-1%
DAC and VOBA amortization, net of interest:						
Prospective unlocking assumption changes	(31)	(15)	NM	(31)	(15)	NM
Prospective unlocking model refinements	(49)	36	NM	(49)	36	NM
Retrospective unlocking	26	(16)	263%	53	(43)	223%
Other amortization, net of interest	134	144	-7%	402	413	-3%
Other intangible amortization	1	1	0%	3	3	0%
Total underwriting, acquisition, insurance and other expenses	\$ 167	\$ 227	-26%	\$ 621	\$ 639	-3%

DAC and VOBA deferrals

As a percentage of sales 137.4% 139.9% 140.4% 138.5%

Commissions and other general and administrative expenses that vary with and are related primarily to the production of new business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The decrease in expenses incurred was primarily a result of lower sales and lower incentive compensation accruals based upon lower earnings and production performance relative to planned goals. The decrease was partially offset by an increase in taxes, licenses and fees due primarily to premium tax true-ups.

The decrease in DAC and VOBA amortization, net of interest and excluding unlocking, was primarily attributable to model refinements and decreased business in force on traditional products.

The third quarter of 2008 had favorable prospective unlocking assumption changes, which reflected primarily improved investment spreads, lower death claims, improved lapse and expense rates and adjustments to the reserves for products with secondary guarantees.

The third quarter of 2007 had favorable prospective unlocking assumption changes, which reflected primarily improved lapse, expense and interest rates.

The third quarter of 2008 had unfavorable retrospective unlocking due primarily to lower premiums received and higher death claims, partially offset by higher investment income on alternative investments and prepayment and bond makewhole premiums and lower maintenance expenses than our model projections assumed.

The third quarter of 2007 had favorable retrospective unlocking due primarily to higher persistency and lower maintenance expenses than our model projections assumed.

The first nine months of 2008 had unfavorable retrospective unlocking due primarily to lower premiums received and higher death claims than our model projections assumed and model adjustments on certain life insurance policies, partially offset by lower maintenance expenses than our model projections assumed.

The first nine months of 2007 had favorable retrospective unlocking due primarily to higher persistency, higher investment income on alternative investments and prepayment and bond makewhole premiums and lower maintenance expenses than our model projections assumed, partially offset by the impact of the correction to account values in the second quarter of 2007 discussed above.

Insurance Solutions Group Protection

Income from Operations

Details underlying the results for Insurance Solutions Group Protection (in millions) were as follows:

	For the Three Months Ended September 30, 2008 2007 Change			For the Nine Months Ended September 30, 2008 2007 Change		
Operating Revenues						
Insurance premiums	\$ 371	\$ 337	10%	\$ 1,134	\$ 1,029	10%
Net investment income	31	30	3%	89	86	3%
Other revenues and fees	1	1	0%	4	4	0%
Total operating revenues	403	368	10%	1,227	1,119	10%
Operating Expenses						
Interest credited	1		NM	1		NM
Benefits	268	236	14%	823	748	10%
Underwriting, acquisition, insurance and other expenses	92	81	14%	271	240	13%
Total operating expenses	361	317	14%	1,095	988	11%
Income from operations before taxes	42	51	-18%	132	131	1%
Federal income taxes	15	18	-17%	46	46	0%
Income from operations	\$ 27	\$ 33	-18%	\$ 86	\$ 85	1%

	For the Three Months Ended September 30, 2008 2007 Change			For the Nine Months Ended September 30, 2008 2007 Change		
Income from Operations by Product Line						
Life	\$ 9	\$ 11	-18%	\$ 30	\$ 30	0%
Disability	16	19	-16%	51	50	2%
Dental	1	1	0%	1	1	0%
Total non-medical	26	31	-16%	82	81	1%
Medical	1	2	-50%	4	4	0%
Total income from operations	\$ 27	\$ 33	-18%	\$ 86	\$ 85	1%

Comparison of the Three Months Ended September 30, 2008 to 2007

Income from operations for this segment decreased due to less favorable total non-medical loss ratio experience, although still on the low end of our expected range.

The decrease in income from operations was partially offset by a growth in insurance premiums driven by normal, organic business growth in our non-medical products and favorable persistency.

Comparison of the Nine Months Ended September 30, 2008 to 2007

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Income from operations for this segment modestly increased due primarily to growth in insurance premiums driven by normal, organic business growth in our non-medical products and favorable persistency.

The increase in income from operations was partially offset by an increase to underwriting, acquisition, insurance and other expenses due to growth in our business in force, higher 401(k) expenses, elevated costs associated with investments in strategic initiatives and an increase in the allocation of expenses to this segment.

The foregoing items are discussed further below.

Insurance Premiums

Details underlying insurance premiums (in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	2008	2007	Change	2008	2007	Change
Insurance Premiums by Product Line						
Life	\$ 136	\$ 124	10%	\$ 402	\$ 367	10%
Disability	168	151	11%	499	446	12%
Dental	38	34	12%	112	101	11%
Total non-medical	342	309	11%	1,013	914	11%
Medical	29	28	4%	121	115	5%
Total insurance premiums	\$ 371	\$ 337	10%	\$ 1,134	\$ 1,029	10%
Sales	\$ 68	\$ 61	11%	\$ 187	\$ 183	2%

Our cost of insurance and policy administration charges are embedded in the premiums charged to our customers. The premiums are a function of the rates priced into the product and our business in force. Business in force, in turn, is driven by sales and persistency experience.

Sales in the table above and as discussed below are the combined annualized premiums for our life, disability and dental products. Sales relate to long-duration contracts sold to new contract holders and new programs sold to existing contract holders. The trend in sales is an important indicator of development of business in force over time.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The increase in insurance premiums in our non-medical business reflects normal business growth and favorable persistency experience.

Net Investment Income

We use our interest income to build the associated policy reserves, which is a function of our insurance premiums and the yields on our invested assets.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Net investment income remained relatively flat as continued growth of business in force was offset by lower yields on investments supporting statutory surplus due to weaker results from our alternative investments.

Benefits and Interest Credited

Details underlying benefits and interest credited (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Benefits and Interest Credited by Product Line						
Life	\$ 100	\$ 88	14%	\$ 293	\$ 269	9%
Disability	116	99	17%	337	300	12%
Dental	29	26	12%	89	78	14%
Total non-medical	245	213	15%	719	647	11%
Medical	24	23	4%	105	101	4%
Total benefits and interest credited	\$ 269	\$ 236	14%	\$ 824	\$ 748	10%

Loss Ratios by Product Line

Life	74.0%	71.2%	72.7%	73.3%
Disability	68.6%	65.0%	67.6%	66.9%
Dental	75.9%	74.9%	79.2%	77.8%
Total non-medical	71.6%	68.6%	70.9%	70.7%
Medical	86.2%	82.8%	87.7%	87.5%

Note: Loss ratios presented above are calculated using whole dollars instead of dollars rounded to millions.

Management focuses on trends in loss ratios to compare actual experience with pricing expectations because group-underwriting risks change over time. We believe that loss ratios in the 71-74% range are more representative of longer-term expectations for the composite non-medical portion of this segment. We expect normal fluctuations in this range, as claim experience is inherently uncertain, and there can be no assurance that experience will fall inside this expected range.

Comparison of the Three Months Ended September 30, 2008 to 2007

We experienced exceptional claim experience on our total non-medical products during 2007 that we did not believe was sustainable. The experience during 2008 was less favorable, but still on the low end of our expected range.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Our total non-medical loss ratio remained relatively flat and was within our expected range. Our life loss ratio benefited from favorable waiver claims experience. Our disability loss ratio was affected by unfavorable termination and incidence experience, but was still well below our expected range.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	\$ 44	\$ 40	10%	\$ 132	\$ 121	9%
General and administrative expenses	43	38	13%	125	108	16%
Taxes, licenses and fees	9	8	13%	28	27	4%
Total expenses incurred	96	86	12%	285	256	11%
DAC and VOBA deferrals	(13)	(13)	0%	(40)	(38)	-5%
Total expenses recognized before amortization	83	73	14%	245	218	12%
DAC and VOBA amortization, net of interest	9	8	13%	26	22	18%
Total underwriting, acquisition, insurance and other expenses	\$ 92	\$ 81	14%	\$ 271	\$ 240	13%

DAC and VOBA Deferrals

As a percentage of insurance premiums	3.5%	3.9%	3.5%	3.7%
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Expenses, excluding broker commissions, that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized on either a straight-line basis or as a level percent of premium of the related contracts depending on the block of business. Broker commissions, which vary with and are related to paid premiums, are expensed as incurred. The level of expenses is an important driver of profitability for this segment as group insurance contracts are offered within an environment that competes on the basis of price and service.

Comparison of the Three Months Ended September 30, 2008 to 2007

The increase in underwriting, acquisition, insurance and other expenses was in line with the increase in insurance premiums.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in underwriting, acquisition, insurance and other expenses was in line with the increase in insurance premiums and was attributable to growth in our business in force, higher 401(k) expenses, elevated costs associated with investments in strategic initiatives and an increase in the allocation of expenses to this segment. Partially offsetting the increase in expenses were higher deferrals, driven by strategic sales expenses.

RESULTS OF INVESTMENT MANAGEMENT

The Investment Management segment, through Delaware Investments, provides a broad range of managed account portfolios, mutual funds, sub-advised funds and other investment products to individual investors and to institutional investors such as private and public pension funds, foundations and endowment funds. Delaware Investments is the marketing name for Delaware Management Holdings, Inc. and its subsidiaries.

Income from Operations

Details underlying the results for Investment Management (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Investment advisory fees external	\$ 68	\$ 89	-24%	\$ 220	\$ 272	-19%
Investment advisory fees inter-segment	21	23	-9%	61	67	-9%
Other revenues and fees	21	38	-45%	73	112	-35%
Total operating revenues	110	150	-27%	354	451	-22%
Operating Expenses						
Underwriting, acquisition, insurance and other expenses	102	116	-12%	303	374	-19%
Income from operations before taxes	8	34	-76%	51	77	-34%
Federal income taxes	3	12	-75%	19	28	-32%
Income from operations	\$ 5	\$ 22	-77%	\$ 32	\$ 49	-35%
Pre-tax operating margin ⁽¹⁾	7%	23%		14%	17%	

⁽¹⁾ The pre-tax operating margin is determined by dividing pre-tax income from operations by operating revenues. Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Income from operations decreased due primarily to the following:

A reduction in investment advisory fees and other revenue and fees due to lower assets under management resulting from equity market declines, negative net flows and the sale of certain institutional fixed income business; and

Negative returns on seed capital driven by equity market declines.

The decrease in income from operations was partially offset by lower expenses due to exiting certain businesses, lower asset-based expenses and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals.

The foregoing items are discussed further below following Impact of Current Market Conditions.

Impact of Current Market Conditions

The October 2008 daily average of the S&P 500 Index[®] declined 17% from its value as of September 30, 2008, negatively impacting our assets under management and seed capital investments. Consequently, we expect lower earnings in the fourth quarter as a result of lower investment advisory fees and negative returns on seed capital, partially offset by lower asset-based expenses.

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For 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 2007 Form 10-K as updated by Part II Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language in this report.

Investment Advisory Fees

Details underlying assets under management and net flows (in millions) were as follows:

	As of September 30,		Change
	2008	2007	
Assets Under Management			
Retail equity	\$ 21,256	\$ 33,131	-36%
Retail fixed	11,306	10,403	9%
Total retail	32,562	43,534	-25%
Institutional equity	14,945	22,108	-32%
Institutional fixed	10,155	23,898	-58%
Total institutional	25,100	46,006	-45%
Inter-segment assets retail and institutional	8,937	10,176	-12%
Inter-segment assets general account	63,531	67,324	-6%
Total inter-segment assets	72,468	77,500	-6%
Total assets under management	\$ 130,130	\$ 167,040	-22%
Total Sub-Advised Assets, Included Above			
Retail	\$ 11,168	\$ 16,380	-32%
Institutional	3,035	4,734	-36%
Total sub-advised assets	\$ 14,203	\$ 21,114	-33%

Net Flows	For the Three Months Ended			For the Nine Months Ended		
	September 30, 2008	September 30, 2007	Change	September 30, 2008	September 30, 2007	Change
External^{(1) (2)}						
Retail equity sales	\$ 800	\$ 1,268	-37%	\$ 3,335	\$ 5,026	-34%
Retail equity redemptions and transfers	(2,437)	(1,894)	-29%	(7,233)	(6,225)	-16%
Retail equity net flows	(1,637)	(626)	NM	(3,898)	(1,199)	NM
Retail fixed income sales	1,137	1,029	10%	3,725	3,237	15%
Retail fixed income redemptions and transfers	(863)	(656)	-32%	(2,735)	(2,065)	-32%
Retail fixed income net flows	274	373	-27%	990	1,172	-16%
Total retail sales	1,937	2,297	-16%	7,060	8,263	-15%
Total retail redemptions and transfers	(3,300)	(2,550)	-29%	(9,968)	(8,290)	-20%
Total retail net flows	(1,363)	(253)	NM	(2,908)	(27)	NM
Institutional equity inflows	688	689	0%	2,222	2,725	-18%
Institutional equity withdrawals and transfers	(1,924)	(1,132)	-70%	(3,815)	(4,914)	22%

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Institutional equity net flows	(1,236)	(443)	NM	(1,593)	(2,189)	27%
Institutional fixed income inflows	551	2,215	-75%	1,030	5,188	-80%
Institutional fixed income withdrawals and transfers	(1,068)	(1,219)	12%	(2,154)	(2,894)	26%
Institutional fixed income net flows	(517)	996	NM	(1,124)	2,294	NM
Total institutional inflows	1,239	2,904	-57%	3,252	7,913	-59%
Total institutional redemptions and transfers	(2,992)	(2,351)	-27%	(5,969)	(7,808)	24%
Total institutional net flows	(1,753)	553	NM	(2,717)	105	NM
Total sales/inflows	3,176	5,201	-39%	10,312	16,176	-36%
Total redemptions and transfers	(6,292)	(4,901)	-28%	(15,937)	(16,098)	1%
Total net flows	\$ (3,116)	\$ 300	NM	\$ (5,625)	\$ 78	NM

- (1) Includes Delaware Variable Insurance Product (VIP) funds. Lincoln Financial insurance subsidiaries as well as unaffiliated insurers participate in these funds. In addition, sales/inflows includes contributions, dividend reinvestments and transfers in kind, and redemptions/transfers includes dividends and capital gain distributions.
- (2) Excludes \$12.3 billion in institutional fixed income business sold to an unaffiliated investment management company in the fourth quarter of 2007 and \$154 million of 529 Plan assets transferred to an unaffiliated 529 Plan provider in the second quarter of 2007 because we do not consider these to be net flows.

Net Flows Inter-Segment ⁽¹⁾	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Total sales/inflows ⁽²⁾	\$ 812	\$ 544	49%	\$ 1,905	\$ 1,753	9%
Total redemptions and transfers ⁽³⁾	(1,028)	(754)	-36%	(2,250)	(2,254)	0%
Total net flows	\$ (216)	\$ (210)	-3%	\$ (345)	\$ (501)	31%

(1) Includes net flows from retail and institutional and excludes net flows from the general account. Also, it excludes the transfer of \$3.0 billion in assets to another internal advisor, \$780 million in assets to Other Operations for the nine months ended September 30, 2007, and the transfer in of \$709 million in assets primarily from another internal advisor in the third quarter of 2008, because we do not consider these to be net flows.

(2) Includes contributions, dividend reinvestments and transfers in kind.

(3) Includes dividends and capital gains distributions.

Average daily S&P 500 Index [®]	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
	1,255.42	1,489.60	-16%	1,325.03	1,470.65	-10%

Investment advisory fees external are generally a function of the rates priced into the product and our average assets under management, which is driven by net flows and capital markets. Investment advisory fees external include amounts that are ultimately paid to sub-advisors for managing the sub-advised assets. The amounts paid to sub-advisors are generally included in the segment's expenses.

Investment advisory fees inter-segment consists of fees for asset management services this segment provides to Retirement Solutions and Insurance Solutions for managing general account assets supporting fixed income products, surplus and separate account assets. These inter-segment amounts are not reported on our Consolidated Statements of Income as they are eliminated along with the associated expenses incurred by Retirement Solutions and Insurance Solutions. Retirement Solutions and Insurance Solutions report the cost as a reduction to net investment income, which is the same methodology that would be used if these services were provided by an external party.

The level of net flows may vary considerably from period to period, and therefore results in one period are not indicative of net flows in subsequent periods.

Comparison of the Three Months Ended September 30, 2008 to 2007

Investment advisory fees external decreased due primarily to lower third-party average assets under management as a result of equity market declines, negative net flows and the impact of the fixed income transaction, as discussed below. Market value changes on assets under management in the third quarter of 2008 were \$(3.4) billion in retail and \$(2.6) billion in institutional compared to \$520 million in retail and \$1.2 billion in institutional for the same period in 2007.

On October 31, 2007, we sold certain institutional taxable fixed income business to an unaffiliated investment management company. As a result of this transaction, assets under management decreased by \$12.3 billion, which resulted in a \$5 million decrease to investment advisory fees external in the third quarter of 2008. We expect a similar impact in the fourth quarter of 2008.

Investment advisory fees inter-segment decreased due to lower average inter-segment assets under management as a result of market declines and negative net flows.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Investment advisory fees – external decreased due primarily to lower third-party average assets under management as a result of equity market declines, negative net flows and lower advisory revenues of \$14 million as a result of the 2007 fixed income transaction, as discussed above. Market value changes on assets under management in the first nine months of 2008 were \$(6.9) billion in retail and \$(5.5) billion in institutional compared to \$3.2 billion in retail and \$2.8 billion in institutional for the same period in 2007.

Investment advisory fees – inter-segment decreased due to lower average inter-segment assets under management as a result of market declines, negative net flows and as a result of the transition of the investment advisory role for the Lincoln Variable Insurance Trust product effective May 1, 2007, to Retirement Solutions. In the role of investment advisor, Investment Management provided investment performance and compliance oversight on third-party investment managers in exchange for a fee. Investment Management will continue to manage certain of the assets as a sub-advisor. As a result of this change, Investment Management’s assets under management decreased by \$3.0 billion; however, there was no impact to our consolidated assets under management or consolidated net income.

Other Revenues and Fees

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Other revenues and fees decreased for the three and nine months ended September 30, 2008 and 2007, partly due to a \$7 million and \$16 million decrease, respectively, in the return on seed capital due to unfavorable equity markets. Seed capital investments are important to establishing a track record for products that will later be sold to investors. These investments are valued at market value each reporting period and the change in market value impacts other revenues. Other revenues and fees were also negatively impacted by the loss of fees from the movement of the investment accounting function to a third party and by lower 12b-1 revenue related to lower average assets under management.

Operating Expenses

Comparison of the Three Months Ended September 30, 2008 to 2007

Operating expenses decreased due primarily to selling certain fixed income business to an unaffiliated investment management company and transitioning the investment accounting function to a third party. Also, accruals for variable compensation based on revenue and results decreased. These reductions were partially offset by an accrual for legal expenses.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Operating expenses decreased due primarily to the elimination of certain expenses as a result of transferring the investment advisory role of Lincoln Variable Insurance Trust to another internal advisor, selling certain fixed income business to an unaffiliated investment management company and transitioning the investment accounting function to a third party. Also, accruals for variable compensation based on revenue and results have decreased. In addition, in 2007, a new closed-end fund was launched. Costs associated with the launch of this fund were \$5 million.

RESULTS OF LINCOLN UK

Lincoln UK is headquartered in Barnwood, Gloucester, England, and is licensed to do business throughout the United Kingdom. Lincoln UK primarily focuses on protecting and enhancing the value of its existing customer base. The segment accepts new deposits from existing relationships and markets a limited range of new products including retirement income products. Lincoln UK's product portfolio principally consists of unit-linked life and pension products, which are similar to U.S. produced variable life and annuity products, where the risk associated with the underlying investments is borne by the contract holders. The segment is sensitive to changes in the foreign currency exchange rate between the U.S. dollar and the British pound sterling. A significant increase in the value of the U.S. dollar relative to the British pound would have a significant adverse effect on the segment's operating results.

For 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 2007 Form 10-K as updated by Part II Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language in this report.

Income from Operations

Details underlying the results for Lincoln UK (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance premiums	\$ 19	\$ 26	-27%	\$ 64	\$ 74	-14%
Insurance fees	40	42	-5%	138	138	0%
Net investment income	21	21	0%	61	60	2%
Total operating revenues	80	89	-10%	263	272	-3%
Operating Expenses						
Benefits	27	30	-10%	87	100	-13%
Underwriting, acquisition, insurance and other expenses	34	43	-21%	113	121	-7%
Total operating expenses	61	73	-16%	200	221	-10%
Income from operations before taxes	19	16	19%	63	51	24%
Federal income taxes	7	6	17%	22	18	22%
Income from operations	\$ 12	\$ 10	20%	\$ 41	\$ 33	24%

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Exchange Rate Ratio-U.S. Dollars to Pounds Sterling						
Average for the period	1.897	2.025	-6%	1.957	1.993	-2%
End-of-period	1.778	2.046	-13%	1.778	2.046	-13%

Comparison of the Three Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, income from operations for this segment increased 28% due primarily to the following:

An unfavorable adjustment in 2007 to our mis-selling reserves; and

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The recording of a Value Added Tax (VAT) refund in 2008.

The increase in income from operations was partially offset by the following:

A reduction in premiums due to declines in the annuitization of vesting pension policies and the face amount of our insurance in force attributable to the maturity of the block of business; and

A \$3 million unfavorable prospective unlocking (a \$13 million unfavorable unlocking from model refinements net of a \$10 million favorable unlocking from assumption changes) of DAC, VOBA and DFEL in 2008 compared to a \$2 million favorable prospective unlocking (a \$4 million favorable unlocking from assumption changes net of a \$2 million unfavorable unlocking from model refinements) in 2007.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, income from operations for this segment increased 27% due primarily to the following:

A favorable adjustment in 2008 to our mis-selling reserves;

An unfavorable adjustment in 2007 to our mis-selling reserves; and

The recording of a VAT refund in 2008.

The increase in income from operations was partially offset by the following:

A reduction in premiums due to declines in the annuitization of vesting pension policies and the face amount of our insurance in force attributable to the maturity of the block of business; and

The impact of prospective unlocking discussed above.

The foregoing items are discussed further below.

Insurance Premiums

Insurance premiums are primarily a function of the rates priced into the product and face amount of our insurance in force.

Comparison of the Three Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, insurance premiums decreased 22%, primarily reflecting a decrease in the annuitization of vesting pension policies, partially offset by a decrease in benefits.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, insurance premiums decreased 12%, primarily reflecting a decrease in the annuitization of vesting pension policies, partially offset by a decrease in benefits.

Our annualized policy lapse rate as of the third quarter of 2008 was 6.3% as compared to 6.5% for the corresponding period in 2007, as measured by the number of policies in force.

Insurance Fees

Details underlying insurance fees, business in force and unit-linked assets (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Insurance Fees						
Mortality assessments	\$ 9	\$ 9	0%	\$ 27	\$ 28	-4%
Expense assessments	27	21	29%	94	86	9%

DFEL:

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Deferrals	(1)	(1)	0%	(2)	(2)	0%
Amortization, net of interest:						
Prospective unlocking assumption changes	(1)	(3)	67%	(1)	(3)	67%
Prospective unlocking model refinements		8	-100%		8	-100%
Retrospective unlocking			NM		(1)	100%
Other amortization, net of interest	6	8	-25%	20	22	-9%
Total insurance fees	\$ 40	\$ 42	-5%	\$ 138	\$ 138	0%

	As of September 30,		Change
	2008	2007	
Individual life insurance in force	\$ 15,605	\$ 19,757	-21%

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Unit-Linked Assets						
Balance at beginning-of-period	\$ 7,833	\$ 9,168	-15%	\$ 8,850	\$ 8,757	1%
Deposits	81	79	3%	242	247	-2%
Withdrawals and deaths	(189)	(251)	25%	(629)	(742)	15%
Net flows	(108)	(172)	37%	(387)	(495)	22%
Investment income and change in market value	(304)	25	NM	(1,062)	531	NM
Foreign currency adjustment	(836)	171	NM	(816)	399	NM
Balance at end-of-period	\$ 6,585	\$ 9,192	-28%	\$ 6,585	\$ 9,192	-28%

The insurance fees reflect mortality and expense assessments on unit-linked account values to cover insurance and administrative charges. These assessments are primarily a function of the rates priced into the product, the face amount of insurance in force and the average unit-linked assets, which is driven by net flows on the account values and the financial markets. Although the use of the reversion to the mean process has lessened the impact of short-term volatility in equity markets, the segment's fee income remains subject to volatility in the equity markets as it affects the level of the underlying assets that drive the fee income.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Excluding the effects of the exchange rate and unlocking, insurance fees increased 18% and 6% in the three and nine months ended September 30, 2008, respectively, as compared to the corresponding periods in 2007 due primarily to a \$9 million correction in the third quarter of 2007 that reduced expense assessments in 2007 and higher U.K. Department of Work and Pensions premiums, partially offset by lower dividend income, lower equity gains and decreasing bond values resulting in a reduced linked tax deduction from the unit-linked account. Excluding the effect of the exchange rate, individual life insurance in force decreased 9%, and unit linked assets decreased 18%, which also contributed to a reduction in linked fees.

The three and nine months ended September 30, 2007, had unfavorable prospective unlocking assumption changes related primarily to refinements to the methodology regarding future expectations of investment income and expenses offset by the expected mortality experience in the future.

Net Investment Income

We use our interest income to build the associated policy reserves, which is a function of our insurance premiums and the yields on our invested assets.

Comparison of the Three Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, net investment income increased by 7%, due primarily to increased investments in short-term bonds and interest due on the VAT refund.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, net investment income increased by 4%, due primarily to increased investments in short-term bonds and interest due on the VAT refund.

Benefits

Benefits for this segment include claims incurred during the period in excess of the associated account balance for its unit-linked products. Benefits are recognized when incurred.

Comparison of the Three Months Ended September 30, 2008 to 2007

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Excluding the effects of the exchange rate, benefits decreased 4% due primarily to an increase in 2007 in mis-selling reserves and a decrease in reserves due to lower levels of vested annuity premiums, partially offset by an increase from unfavorable claim experience and lower reinsurance recoveries.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Excluding the effects of the exchange rate, benefits decreased 11% due primarily to a reduction in the liability for mis-selling practices following a favorable finding in the second quarter of 2008 by the U.K. Financial Ombudsman Service regarding Lincoln UK's time barring of claims compared to an increase in the liability for mis-selling practices in 2007, a one-time reduction in the death claim reserve following a reconciliation of previously paid claims and a decrease in reserves due to lower levels of vested annuity premiums. These decreases were partially offset by an unfavorable tax reserve adjustment and lower reinsurance recoveries.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	\$ 1	\$ 1	0%	\$ 3	\$ 3	0%
General and administrative expenses	23	27	-15%	74	80	-8%
Total expenses incurred	24	28	-14%	77	83	-7%
DAC and VOBA deferrals	(1)	(1)	0%	(2)	(3)	33%
Total expenses recognized before amortization	23	27	-15%	75	80	-6%
DAC and VOBA amortization, net of interest:						
Prospective unlocking assumption changes	(16)	(9)	-78%	(16)	(9)	-78%
Prospective unlocking model refinements	20	11	82%	20	11	82%
Retrospective unlocking	(2)	(1)	-100%	(3)	(2)	-50%
Other amortization, net of interest	9	15	-40%	37	41	-10%
Total underwriting, acquisition, insurance and other expenses	\$ 34	\$ 43	-21%	\$ 113	\$ 121	-7%

Commissions and other costs, which vary with and are related primarily to the production of new business, are deferred to the extent recoverable. DAC and VOBA related to unit-linked business are amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts depending on the block of business.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

Excluding the effect of the exchange rate, general and administrative expenses decreased 9% and 6% for the three and nine months ended September 30, 2008, as compared to the corresponding periods in 2007, respectively, due primarily to a refund of VAT based on approval of our claim by Customs and Excise.

The three and nine months ended September 30, 2008, had favorable prospective unlocking assumption changes related primarily to lower maintenance costs and higher persistency than our model projections assumed. The three and nine months ended September 30, 2007, had favorable prospective unlocking assumption changes related primarily to changes in investment income, expense and mortality expectations.

RESULTS OF 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, which was sold to Swiss Re in 2001, corporate debt and corporate reinsurance. We are actively managing our remaining radio station clusters to maximize performance and future value. Other Operations also includes the Institutional Pension business, which was previously reported in Employer Markets Retirement Products prior to our segment realignment discussed in Introduction Executive Summary. The Institutional Pension business is a closed-block of pension business, the majority of which was sold on a group annuity basis, and is currently in run-off.

Loss from Operations

Details underlying the results for Other Operations (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Operating Revenues						
Insurance premiums	\$ 1	\$ 1	0%	\$ 4	\$ 3	33%
Net investment income	90	93	-3%	277	271	2%
Amortization of deferred gain on business sold through reinsurance	19	19	0%	55	56	-2%
Media revenues (net)	21	27	-22%	66	80	-18%
Other revenues and fees	1	(4)	125%		2	-100%
Inter-segment elimination of investment advisory fees	(21)	(23)	9%	(61)	(67)	9%
Total operating revenues	111	113	-2%	341	345	-1%
Operating Expenses						
Interest credited	43	48	-10%	131	137	-4%
Benefits	31	36	-14%	88	110	-20%
Media expenses	14	13	8%	45	43	5%
Other expenses	33	52	-37%	120	116	3%
Interest and debt expenses	69	68	1%	209	204	2%
Inter-segment elimination of investment advisory fees	(21)	(23)	9%	(61)	(67)	9%
Total operating expenses	169	194	-13%	532	543	-2%
Loss from operations before taxes	(58)	(81)	28%	(191)	(198)	4%
Federal income taxes	(19)	(32)	41%	(64)	(83)	23%
Loss from operations	\$ (39)	\$ (49)	20%	\$ (127)	\$ (115)	-10%

Comparison of the Three Months Ended September 30, 2008 to 2007

Loss from operations for this segment decreased due primarily to the following:

Lower other expenses due primarily to higher merger-related expenses in 2007 and a separation benefit recorded in the third quarter of 2007, partially offset by increases in litigation expense; and

Unfavorable mortality in our Institutional Pension business in the third quarter of 2007. The decrease in loss from operations was partially offset by the following:

Lower media earnings related primarily to lower advertising revenues caused by market conditions; and

Less favorable tax items that impacted the effective tax rate.

Comparison of the Nine Months Ended September 30, 2008 to 2007

Loss from operations for this segment increased due primarily to the following:

Lower media earnings related primarily to lower advertising revenues caused by market conditions;

Higher other expenses attributable primarily to the impact of the one-time curtailment gain recorded in the second quarter of 2007 related to our employee pension plan and the relocation costs associated with the move of our corporate office, partially offset by a separation benefit recorded in the third quarter of 2007 and lower merger-related expenses in 2008;

Higher interest and debt expenses from increased debt; and

Less favorable tax items that impacted the effective tax rate.

The increase in loss from operations was partially offset by the following:

Higher net investment income from an increase in invested assets driven by distributable earnings received from our insurance segments, dividends received from our other segments and issuances of debt as these items exceeded share repurchases and dividends paid to stockholders; and

Unfavorable mortality in our Institutional Pension business in 2007.

Certain of the foregoing items are discussed further below following *Impact of Current Market Conditions*.

Impact of Current Market Conditions

Media earnings continue to experience deterioration as customers reduce their advertising expenses in response to the credit markets. Due to seasonality, the fourth quarter is generally our strongest quarter; however, expectations for this year are that fourth quarter will be the lowest quarter in 2008 given the current economic conditions;

Investment income is expected to be lower as a result of lower dividend income from our holdings of Bank of America common stock, following its announcement in early October to reduce its dividend rate by half; and

Additional other-than-temporary impairments that will further reduce investment income for this segment. See below for further detail on this impact.

For 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 2007 Form 10-K as updated by *Part II Item 1A. Risk Factors* and *Forward-Looking Statements Cautionary Language* in this report.

Net Investment Income and Interest Credited

We utilize an internal formula to determine the amount of capital that is allocated to our business segments. Investment income on capital in excess of the calculated amounts is reported in Other Operations. If regulations require increases in our insurance segments' statutory reserves and surplus, the amount of capital allocated to Other Operations would decrease and net investment income would be negatively impacted. In addition, as discussed below in *Review of Consolidated Financial Condition Alternative Sources of Liquidity*, the holding company maintains an inter-segment cash management account where other segments can borrow from or lend money to the holding company. The inter-segment

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cash management account affects net investment income for Other Operations, as all inter-segment eliminations are reported within Other Operations.

Write-downs for other-than-temporary impairments decrease the recorded value of our invested assets owned by our business segments. These write-downs are not included in the income from operations of our operating segments. When impairment occurs, assets are transferred to the business segments' portfolios and will reduce the future net investment income for Other Operations, but should not have an impact on a consolidated basis unless the impairments are related to defaulted securities. Statutory reserve adjustments for our business segments can also cause allocations of invested assets between the affected segments and Other Operations.

The majority of our interest credited relates to our reinsurance operations sold to Swiss Re in 2001. A substantial amount of the business was sold through indemnity reinsurance transactions resulting in some of the business still flowing through our consolidated financial statements. The interest credited corresponds to investment income earnings on the assets we continue to hold for this business. There is no impact to income or loss in Other Operations or on a consolidated basis for these amounts.

Comparison of the Three Months Ended September 30, 2008 to 2007

The decrease in net investment income was attributable to a decrease in invested assets that was driven by share repurchases, dividends paid to stockholders and transfers to other segments for other-than-temporary impairments. The decrease in invested assets from these items exceeded distributable earnings received from our insurance segments, dividends received from our other segments and issuances of debt. In addition, decreases in income on standby real estate equity commitments unfavorably impacted net investment income, partially offset by the favorable impact from decreases in collateral under securities loaned.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in net investment income was attributable to an increase in invested assets that was driven by distributable earnings received from our insurance segments, dividends received from our other segments and issuances of debt. These items exceeded the amount of share repurchases, dividends paid to stockholders and transfers to other segments for other-than-temporary impairments. In addition, increases in our inter-segment cash management account payable and decreases in income on standby real estate commitments unfavorably impacted net investment income, partially offset by the favorable impact from decreases in collateral under securities loaned.

Benefits

Benefits are recognized when incurred for Institutional Pension products.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The decrease in benefits was a result of unfavorable mortality in our Institutional Pension business in the second and third quarters of 2007.

Other Expenses

Details underlying other expenses (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Other Expenses						
Merger-related expenses	\$ 13	\$ 30	-57%	\$ 44	\$ 75	-41%
Branding	8	8	0%	27	24	13%
Retirement Income Security Ventures	4	3	33%	9	6	50%
Taxes, licenses and fees	2	4	-50%	5	8	-38%
Other	6	7	-14%	35	3	NM
Total other expenses	\$ 33	\$ 52	-37%	\$ 120	\$ 116	3%

Other expenses for Other Operations includes expenses that are corporate in nature such as merger-related expenses, restructuring costs, branding, charitable contributions, certain litigation reserves, amortization of media intangible assets with a definite life, other expenses not allocated to our business segments and inter-segment expense eliminations, excluding those associated with our inter-segment investment advisory fees.

Comparison of the Three Months Ended September 30, 2008 to 2007

The decrease in other expenses was attributable primarily to the effect of decreased merger-related expenses because of higher system integration work related to our administrative systems in 2007, as well as a separation benefit related to the retirement of certain key executives in 2007. These decreases were partially offset by increases in litigation and facilities expense.

Comparison of the Nine Months Ended September 30, 2008 to 2007

The increase in other expenses was attributable primarily to the impact of the one-time curtailment gain recorded in the second quarter of 2007 related to our employee pension plan and relocation costs associated with the move of our corporate office and an increase in incentive compensation expense, strategic costs and facilities expense. These increases in other expenses were partially offset by a decrease in merger-related expenses as a result of higher system integration work related to our administrative systems in 2007 and a separation benefit related to the retirement of certain key executives recorded in the third quarter of 2007.

Merger-related expenses were the result of actions undertaken by us to eliminate duplicate operations and functions as a result of the Jefferson-Pilot merger along with costs related to the implementation of our new unified product portfolio and other initiatives. These actions

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will be ongoing and are expected to be substantially complete by the first half of 2009. Our current estimate of the cumulative integration expenses is approximately \$215 million to \$225 million, pre-tax, and excludes amounts capitalized or recorded to goodwill.

Interest and Debt Expense

The timing and/or discretionary nature of uses of cash for the repurchase of stock, incentive compensation and the availability of funds from our cash management account may result in changes in external financing and volatility in interest expense. For additional information on our financing activities, see *Review of Consolidated Financial Condition* *Liquidity and Capital Resources* *Sources of Liquidity and Cash Flow Financing Activities* below.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The increase in interest and debt expense was due primarily to an increase in our average outstanding debt balance in 2008 as compared to 2007, partially offset by decrease in interest rates on our variable rate borrowings. The increased debt was primarily the result of: \$450 million issued in the third quarter of 2008 to repay maturing debt, to fund reductions in our outstanding commercial paper balances and for general corporate purposes; and \$375 million issued in the fourth quarter of 2007 to fund a captive reinsurance company (calculated under AG38), which was created for the purpose of reinsuring liabilities of our existing insurance affiliates, related primarily to statutory reserves on UL products with secondary guarantees.

Federal Income Tax Benefit

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The decrease in the federal income tax benefit was due to less favorable tax items that impacted the effective tax rate related primarily to changes in tax preferred investments.

REALIZED LOSS

Details underlying realized loss, after-DAC ⁽¹⁾ (in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
Pre-Tax						
Operating realized gain:						
Indexed annuity net derivatives results	\$ 2	\$	NM	\$	\$ 2	-100%
GLB	11	2	NM	27	4	NM
GDB hedge cost	39	(1)	NM	47	(3)	NM
Total operating realized gain	52	1	NM	74	3	NM
Realized loss related to certain investments						
Gain (loss) on certain reinsurance derivative/trading securities	(2)	(1)	-100%		3	-100%
GLB net derivatives results	89	(24)	NM	85	(10)	NM
GDB derivatives results	(33)		NM	(41)	1	NM
Indexed annuity forward-starting option	2	(6)	133%	9	(3)	NM
Gain on sale of subsidiaries/businesses	2		NM	6		NM
Total excluded realized loss	(256)	(66)	NM	(421)	(27)	NM
Total realized loss	\$ (204)	\$ (65)	NM	\$ (347)	\$ (24)	NM

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2008		
	2008	2007	Change	2008	2007	Change
After-Tax						
Operating realized gain:						
Indexed annuity net derivatives results	\$ 1	\$	NM	\$	\$ 1	-100%
GLB	7	1	NM	18	3	NM
GDB hedge cost	25	(1)	NM	31	(2)	NM
Total operating realized gain	33		NM	49	2	NM
Realized loss related to certain investments						
Gain (loss) on certain reinsurance derivative/trading securities	(1)		NM		2	-100%
GLB net derivatives results	58	(15)	NM	54	(6)	NM
GDB derivative results	(22)		NM	(27)	1	NM
Indexed annuity forward-starting option	1	(4)	125%	6	(2)	NM
Gain on sale of subsidiaries/businesses	1		NM	4		NM
Total excluded realized loss	(166)	(42)	NM	(274)	(16)	NM
Total realized loss	\$ (133)	\$ (42)	NM	\$ (225)	\$ (14)	NM

⁽¹⁾ DAC refers to the associated amortization of expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities.

Operating Realized Gain

Details underlying operating realized gain (dollars in millions) were as follows:

	For the Three Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
			Change			Change
Indexed Annuity Net Derivatives Results						
Change in fair value of S&P 500 Index® call options	\$ 42	\$ (4)	NM	\$ 167	\$ (37)	NM
Change in fair value of embedded derivatives	(37)	4	NM	(167)	42	NM
Associated amortization expense of DAC, VOBA, DSI and DFEL	(3)		NM		(3)	100%
Total indexed annuity net derivatives results	2		NM	2		-100%
GLB						
Attributed fee in excess of the net valuation premium	18	4	NM	51	10	NM
Associated amortization expense of DAC, VOBA, DSI and DFEL:						
Retrospective unlocking ⁽²⁾	4		NM	7		NM
Other amortization	(11)	(2)	NM	(31)	(6)	NM
Total GLB	11	2	NM	27	4	NM
GDB hedge cost						
Pre-DAC ⁽¹⁾ amount	51	(2)	NM	66	(5)	NM
Associated amortization expense of DAC, VOBA, DSI and DFEL:						
Retrospective unlocking ⁽²⁾	18		NM	19		NM
Other amortization	(30)	1	NM	(38)	2	NM
Total GDB hedge cost	39	(1)	NM	47	(3)	NM
Total Operating Realized Gain	\$ 52	\$ 1	NM	\$ 74	\$ 3	NM

⁽¹⁾ DAC refers to the associated amortization of expense of DAC, VOBA, DSI and DFEL.

⁽²⁾ Related primarily to the emergence of gross profits.

Operating realized gain includes the following:

Indexed annuity net derivative results Represents the net difference between the change in the fair value of the S&P 500 Inde® call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuities products. The change in the fair value of the liability for the embedded derivative represents the amount that is credited to the indexed annuity contract.

GLB Represents the portion of the GLB rider fees calculated as the attributed fees in excess of the net valuation premium. Net valuation premium represents a level portion of rider fees required to fund potential claims for living benefits. The attributed fees are the fees used in the calculation of the embedded derivative.

GDB hedge cost Represents the change in the fair value of the derivatives that offsets the benefit ratio unlocking of our SOP 03-1 reserves on our GDB riders, including our expected cost of the hedging instruments.

Realized Gain (Loss) Related to Certain Investments

See Consolidated Investments Realized Gain (Loss) Related to Investments below.

Gain (Loss) on Certain Reinsurance Derivative/Trading Securities

Gain (loss) on certain reinsurance derivative/trading securities represents changes in the fair values of total return swaps (embedded derivatives) theoretically included in our 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.

GLB Net Derivatives Results and GDB Derivatives Results

Details underlying GLB net derivatives results and GDB derivative results (dollars in millions) were as follows:

	For the Three Months Ended			For the Nine Months Ended		
	September 30, 2008	September 30, 2007	Change	September 30, 2008	September 30, 2007	Change
GLB Net Derivatives Results						
Net valuation premium, net of reinsurance	\$ 21	\$ 13	62%	\$ 58	\$ 36	61%
Change in reserves hedged :						
Prospective unlocking assumption changes	80	(6)	NM	80	(6)	NM
Prospective unlocking model refinements		8	-100%		8	-100%
Other	(651)	(123)	NM	(812)	(49)	NM
Change in market value of derivative assets	319	67	NM	388	(6)	NM
Hedge program ineffectiveness	(252)	(54)	NM	(344)	(53)	NM
Change in reserves not hedged (NPR Component)	372		NM	481		NM
Associated amortization expense of DAC, VOBA, DSI and DFEL:						
Prospective unlocking assumption changes	(31)		NM	(31)		NM
Retrospective unlocking ⁽²⁾	(69)	(7)	NM	(59)	(1)	NM
Other amortization	48	24	100%	14	8	75%
Loss from the initial impact of adopting SFAS 157, after-DAC ⁽¹⁾			NM	(34)		NM
Total GLB net derivatives results	\$ 89	\$ (24)	NM	\$ 85	\$ (10)	NM
GDB Derivatives Results						
Benefit ratio unlocking of SOP 03-1 reserves	\$ (51)	\$ 2	NM	\$ (67)	\$ 5	NM
Change in fair value of derivatives, excluding expected cost of hedging instruments	8	(2)	NM	10	(3)	NM
Associated amortization expense of DAC, VOBA, DSI and DFEL:						
Retrospective unlocking ⁽²⁾	(16)		NM	(17)		NM
Other amortization	26		NM	33	(1)	NM
Total GDB derivatives results	\$ (33)	\$	NM	\$ (41)	\$ 1	NM

⁽¹⁾ DAC refers to the associated amortization of expense of DAC, VOBA, DSI and DFEL.

⁽²⁾ Related primarily to the emergence of gross profits.

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Our GLB net derivatives results represents the net valuation premium, the change in the fair value of the embedded derivative liabilities of our GLB products and the change in the fair value of the derivative instruments we own to hedge. This includes the cost of purchasing the hedging instruments.

Our GDB derivatives results represents the net difference between the benefit ratio unlocking of SOP 03-1 reserves on our GDB riders and the change in the fair value of the derivatives excluding our expected cost of the hedging instruments.

The GLB guarantees in our variable annuity products are considered embedded derivatives and are recorded on our Consolidated Balance Sheets at fair value under SFAS 133 and SFAS 157. We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for GLBs. The change in fair value of these instruments tends to move in the opposite direction of the change in fair value of the embedded derivatives. In the table above, we have presented the components of our GLB results, which can be volatile especially when sudden and significant changes in equity markets and/or interest rates occur. When we assess the effectiveness of our hedge program, we exclude the impact of the change in the liability not hedged. This reserve represents the portion of our GLB liabilities related to the NPR required by SFAS 157. This component of the liability is not included in our hedging program. The impact of the change in NPR has had the effect of reducing our GLB liabilities on our balance sheet by \$481 million since the adoption of SFAS 157 on January 1, 2008. For additional information on our guaranteed benefits, see [Critical Accounting Policies and Estimates](#) [Derivatives](#) [Guaranteed Living Benefits](#) above. For additional information on our hedge program see [Reinsurance](#) below.

Comparison of the Three and Nine Months Ended September 30, 2008 to 2007

The GLB hedge program ineffectiveness, excluding the impact of unlocking, in 2008 was attributable primarily to current period unfavorable fund performance of our hedges designed to mitigate our basis risk over the long-term, unfavorable and volatile capital market conditions that resulted in non-linear changes in reserves that our derivatives are not specifically designed to mitigate, and losses from the strengthening of the dollar as compared to the euro, pound and yen. A large portion of our third quarter hedge ineffectiveness was attributable to four days in September including the first market day after the Lehman bankruptcy and the day the House originally failed to pass the original EESA legislation. The ineffectiveness in the quarter can be attributed to a combination of basis risk, currency movements and the impact of extreme intra-day volatility. These same conditions have continued into the month of October. We are focused on managing the long-term performance of the hedge program recognizing that any material potential claims under the GLBs are approximately a decade in the future.

The increased GLB hedge program ineffectiveness in 2008 was more than offset by the gains attributable to the SFAS 157 NPR adjustments attributable primarily to our widening credit spreads.

The third quarter of 2008 had favorable GLB change in reserves hedged on our prospective unlocking due to assumption changes reflecting primarily updates to implied ultimate volatility. The third quarter of 2007 had unfavorable GLB change in reserves hedged prospective unlocking due to assumption changes reflecting improved persistency experience.

The third quarter of 2008 had unfavorable GLB DAC, VOBA, DSI and DFEL prospective unlocking reflecting the impact of incorporating the related GLB gross profits due to the change in reserves hedged prospective unlocking discussed above into the DAC, VOBA, DSI and DFEL models.

The unfavorable GDB derivatives results, excluding the retrospective unlocking of DAC, VOBA, DSI and DFEL were driven primarily by current period unfavorable fund performance of our hedges designed to mitigate our basis risk over the long-term, losses from the strengthening of the dollar as compared to the euro, pound and yen, and unfavorable and volatile capital market conditions that resulted in non-linear changes in reserves that our derivatives are not specifically designed to mitigate.

See [Market Risk](#) [Credit Risk](#) for information on our counterparty exposure.

Indexed Annuity Forward-Starting Option

A detail underlying indexed annuity forward-starting option (dollars in millions) was as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Indexed Annuity Forward-Starting Option						
Pre-DAC ⁽¹⁾ amounts:						
Prospective unlocking assumption changes	\$	\$ 1	-100%	\$	\$ 1	-100%
Other	4	(14)	129%	(2)	(8)	75%
Associated amortization expense of DAC, VOBA, DSI and DFEL	(2)	7	NM	1	4	-75%
Gain from the initial impact of adopting SFAS 157, after-DAC ⁽¹⁾			NM	10		NM
Total	\$ 2	\$ (6)	133%	\$ 9	\$ (3)	NM

⁽¹⁾ DAC refers to the associated amortization of expense of DAC, VOBA, DSI and DFEL.

The liability for the forward-starting option reflects 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 SFAS 133 and SFAS 157. These fair values represent an estimate of the cost of the options we will purchase in the future, discounted back to the date of the balance sheet, using current market indications of volatility and interest rates, which can vary significantly from period to period due to a number of factors and therefore can provide results that are not indicative of the underlying trends.

Gain on Sale of Subsidiaries/Businesses

See Acquisitions and Dispositions Fixed Income Management Business for details.

CONSOLIDATED INVESTMENTS

Details underlying our consolidated investment balances (in millions) were as follows:

	Percentage of Total Investments			
	As of September 30, 2008	As of December 31, 2007	As of September 30, 2008	As of December 31, 2007
Investments				
Available-for-sale securities:				
Fixed maturity	\$ 51,931	\$ 56,276	76.5%	78.2%
Equity	493	518	0.7%	0.7%
Trading securities	2,393	2,730	3.5%	3.8%
Mortgage loans on real estate	7,688	7,423	11.3%	10.3%
Real estate	127	258	0.2%	0.4%
Policy loans	2,870	2,885	4.2%	4.0%
Derivative instruments	1,262	807	1.9%	1.1%
Alternative investments	826	799	1.2%	1.1%
Other investments	367	276	0.5%	0.4%
Total investments	\$ 67,957	\$ 71,972	100.0%	100.0%

Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management, since decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion on our risk management process, see Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities and the matching of our portfolios of investment assets with the liabilities of our various products.

Fixed Maturity and Equity Securities Portfolios

Fixed maturity securities and equity securities consist of portfolios classified as available-for-sale and trading. Mortgage-backed and private securities are included in both available-for-sale and trading portfolios.

Details underlying our fixed maturity and equity securities portfolios by industry classification (in millions) are presented in the below tables. These tables agree in total with the presentation of available-for-sale securities in Note 4; however, the categories below represent a more detailed breakout of the available-for-sale portfolio; therefore, the investment classifications listed below do not agree to the investment categories provided in Note 4.

	As of September 30, 2008				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	% Fair Value
Fixed Maturity Available-For-Sale Securities					
Corporate bonds:					
Financial services	\$ 10,363	\$ 52	\$ 1,351	\$ 9,064	17.4%
Basic industry	2,339	14	155	2,198	4.2%
Capital goods	2,675	24	116	2,583	5.0%
Communications	2,637	22	170	2,489	4.8%
Consumer cyclical	2,954	15	273	2,696	5.2%
Consumer non-cyclical	4,269	37	166	4,140	8.0%
Energy	2,937	47	143	2,841	5.5%
Technology	737	4	32	709	1.4%
Transportation	1,271	25	72	1,224	2.4%
Industrial other	680	7	26	661	1.3%
Utilities	8,374	71	471	7,974	15.3%
Asset-backed securities:					
Collateralized debt obligations and credit-linked notes	797	7	460	344	0.7%
Commercial real estate collateralized debt obligations	61		12	49	0.1%
Credit card	165		23	142	0.3%
Home equity	1,183	1	316	868	1.7%
Manufactured housing	151	4	9	146	0.3%
Auto loan					0.0%
Other	204	1	9	196	0.4%
Commercial mortgage-backed securities:					
Non-agency backed	2,588	10	280	2,318	4.5%
Collateralized mortgage obligations:					
Agency backed	4,902	50	54	4,898	9.3%
Non-agency backed	2,146		568	1,578	3.0%
Mortgage pass-throughs:					
Agency backed	1,756	20	6	1,770	3.4%
Non-agency backed	147		26	121	0.2%
Municipals:					
Taxable	113	4	1	116	0.2%
Tax-exempt	5			5	0.0%
Government and government agencies:					
United States	1,170	91	14	1,247	2.4%
Foreign	1,456	49	67	1,438	2.8%
Redeemable preferred stock	131	1	16	116	0.2%
Total available-for-sale fixed maturity	56,211	556	4,836	51,931	100.0%
Equity Available-For-Sale Securities	612	9	128	493	
Total available-for-sale securities	56,823	565	4,964	52,424	
Trading Securities ⁽¹⁾	2,363	193	163	2,393	
Total available-for-sale and trading securities	\$ 59,186	\$ 758	\$ 5,127	\$ 54,817	

	As of December 31, 2007				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	% Fair Value
Fixed Maturity Available-For-Sale Securities					
Corporate bonds:					
Financial services	\$ 11,234	\$ 187	\$ 300	\$ 11,121	19.8%
Basic industry	2,148	52	35	2,165	3.8%
Capital goods	2,665	66	16	2,715	4.8%
Communications	2,903	123	46	2,980	5.3%
Consumer cyclical	3,038	56	94	3,000	5.3%
Consumer non-cyclical	3,898	101	25	3,974	7.1%
Energy	2,688	121	14	2,795	5.0%
Technology	660	15	5	670	1.2%
Transportation	1,409	39	19	1,429	2.5%
Industrial other	710	22	6	726	1.3%
Utilities	8,051	195	77	8,169	14.5%
Asset-backed securities:					
Collateralized debt obligations and credit-linked notes	996	8	205	799	1.4%
Commercial real estate collateralized debt obligations	42		4	38	0.1%
Mortgage-backed securities collateralized debt obligations	1			1	0.0%
Credit card	160	1	2	159	0.3%
Home equity	1,209	4	76	1,137	2.0%
Manufactured housing	161	7	5	163	0.3%
Auto loan	4			4	0.0%
Other	235	4	1	238	0.4%
Commercial mortgage-backed securities:					
Non-agency backed	2,711	48	70	2,689	4.8%
Collateralized mortgage obligations:					
Agency backed	4,547	74	19	4,602	8.2%
Non-agency backed	2,347	10	110	2,247	4.0%
Mortgage pass-throughs:					
Agency backed	933	18	2	949	1.7%
Non-agency backed	153	1	4	150	0.3%
Municipals:					
Taxable	133	5		138	0.2%
Tax-exempt	6			6	0.0%
Government and government agencies:					
United States	1,261	108	4	1,365	2.4%
Foreign	1,663	92	19	1,736	3.1%
Redeemable preferred stock	103	9	1	111	0.2%
Total available-for-sale fixed maturity	56,069	1,366	1,159	56,276	100.0%
Equity Available-For-Sale Securities	548	13	43	518	
Total available-for-sale securities	56,617	1,379	1,202	56,794	
Trading Securities ⁽¹⁾	2,512	265	47	2,730	
Total available-for-sale and trading securities	\$ 59,129	\$ 1,644	\$ 1,249	\$ 59,524	

⁽¹⁾ Our trading securities support our modified coinsurance arrangements (Modco) and the investment results are passed directly to the reinsurers. Refer below to Trading Securities section for further details.

Available-for-Sale Securities

Because the general intent of the available-for-sale accounting guidance is to reflect stockholders' equity as if unrealized gains and losses were actually recognized, it is necessary that we consider all related accounting adjustments that would occur upon such a hypothetical recognition of unrealized gains and losses. Such related balance sheet effects include adjustments to the balances of DAC, VOBA, DFEL, other contract holder funds and deferred income taxes. Adjustments to each of these balances are charged or credited to accumulated other comprehensive income. For instance, DAC is adjusted upon the recognition of unrealized gains or losses since the amortization of DAC is based upon an assumed emergence of gross profits on certain insurance business. Deferred income tax balances are also adjusted, since unrealized gains or losses do not affect actual taxes currently paid.

As of September 30, 2008, and December 31, 2007, 92.3% and 90.7%, respectively, of total publicly traded and private securities in unrealized loss status were rated as investment grade. See Note 4 for ratings and maturity date information for our fixed maturity investment portfolio.

As more fully described in Note 1 of our 2007 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments. Based on this review, the cause of the \$3.8 billion increase in our gross available-for-sale securities unrealized losses for the nine months ended September 30, 2008, was attributable primarily to a combination of reduced liquidity in several market segments and deterioration in credit fundamentals. We believe that the securities in an unrealized loss position as of September 30, 2008 were not other-than-temporarily impaired due to our ability and intent to hold for a period of time sufficient for recovery. For further information on our available-for-sales securities unrealized losses, see *Additional Details on our Unrealized Losses on Available-for-Sale Securities* below.

The quality of our available-for-sale fixed maturity securities portfolio, as measured at estimated fair value and by the percentage of fixed maturity securities invested in various ratings categories, relative to the entire fixed maturity available-for-sale security portfolio (in millions) was as follows:

NAIC Designation	Rating Agency Equivalent Designation	As of September 30, 2008			As of December 31, 2007		
		Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	Aaa / Aa / A	\$ 34,518	\$ 32,178	62.0%	\$ 34,648	\$ 34,741	61.8%
2	Baa	18,431	16,999	32.7%	18,168	18,339	32.6%
		52,949	49,177	94.7%	52,816	53,080	94.4%
Below Investment Grade Securities							
3	Ba	2,186	1,928	3.7%	2,184	2,159	3.8%
4	B	795	611	1.2%	787	783	1.4%
5	Caa and lower	240	175	0.3%	270	238	0.4%
6	In or near default	41	40	0.1%	12	16	0.0%
		3,262	2,754	5.3%	3,253	3,196	5.6%
Total securities		\$ 56,211	\$ 51,931	100.0%	\$ 56,069	\$ 56,276	100.0%

Securities below investment grade as a % of total fixed maturity available-for-sale securities

5.8% 5.3% 5.8% 5.7%

Comparisons between the National Association of Insurance Commissioners (NAIC) ratings and rating agency designations are published by the NAIC. The NAIC assigns securities quality ratings and uniform valuations, which are used by insurers when preparing their annual statements. The NAIC ratings are similar to the rating agency designations of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC ratings 1 and 2 include bonds generally considered investment grade (rated Baa3 or higher by Moody's, or rated BBB- or higher by S&P and Fitch), by such ratings organizations. NAIC ratings 3 through 6 include bonds generally considered below investment grade (rated Ba1 or lower by Moody's, or rated BB+ or lower by S&P and Fitch).

The estimated fair value for all private securities was \$7.5 billion as of September 30, 2008, compared to \$7.8 billion as of December 31, 2007, representing approximately 11% of total invested assets as of September 30, 2008, and December 31, 2007.

Trading Securities

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Trading securities, which support certain reinsurance funds withheld and our Modco reinsurance agreements, are carried at estimated fair value and changes in estimated fair value are recorded in net income as they occur. Investment results for these

portfolios, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. Offsetting these amounts are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. See Note 1 in our 2007 Form 10-K for more information regarding our accounting for Modco.

Mortgage-Backed Securities (Included in Available-for-Sale and Trading Securities)

Our fixed maturity securities include mortgage-backed securities. These securities are subject to risks associated with variable prepayments. This may result in differences between the actual cash flow and maturity of these securities than that expected at the time of purchase. Securities that have an amortized cost greater than par and are backed by mortgages that prepay faster than expected will incur a reduction in yield or a loss. Those securities with an amortized cost lower than par that prepay faster than expected will generate an increase in yield or a gain. In addition, we may incur reinvestment risks if market yields are lower than the book yields earned on the securities. Prepayments occurring slower than expected have the opposite impact. We may incur reinvestment risks if market yields are higher than the book yields earned on the securities and we are forced to sell the securities. The degree to which a security is susceptible to either gains or losses is influenced by: the difference between its amortized cost and par; the relative sensitivity of the underlying mortgages backing the assets to prepayment in a changing interest rate environment; and the repayment priority of the securities in the overall securitization structure.

We limit the extent of our risk on mortgage-backed securities by prudently limiting exposure to the asset class, by generally avoiding the purchase of securities with a cost that significantly exceeds par, by purchasing securities backed by stable collateral and by concentrating on securities with enhanced priority in their trust structure. Such securities with reduced risk typically have a lower yield (but higher liquidity) than higher-risk mortgage-backed securities. At selected times, higher-risk securities may be purchased if they do not compromise the safety of the general portfolio. As of September 30, 2008, we did not have a significant amount of higher-risk mortgage-backed securities. A significant amount of assets in our mortgage-backed securities portfolio are either guaranteed by U.S. government-sponsored enterprises or are supported in the securitization structure by junior securities enabling the assets to achieve high investment grade status.

Our exposure to subprime mortgage lending is limited to investments in banks and other financial institutions that may be impacted by subprime lending and direct investments in asset-backed securities collateralized debt obligations, asset-backed securities (ABS) and residential mortgage-backed securities (RMBS). Mortgage-related ABS are backed by home equity loans and RMBS are backed by residential mortgages. These securities are backed by loans that are characterized by borrowers of differing levels of creditworthiness: prime, Alt-A and subprime. Prime lending is the origination of residential mortgage loans to customers with excellent credit profiles. Alt-A lending is the origination of residential mortgage loans to customers who have Prime credit profiles but lack documentation to substantiate income. Subprime lending is the origination of loans to customers with weak or impaired credit profiles.

The slowing U.S. housing market, increased interest rates and relaxed underwriting standards for some originators of residential mortgage loans and home equity loans have recently led to higher delinquency rates, especially for loans originated in the past few years. We expect delinquency rates and loss rates on residential mortgages and home equity loans to increase in the future; however, we continue to expect to receive payments in accordance with contractual terms for a significant amount of our securities, largely due to the seniority of the claims on the collateral of the securities that we own. The tranches of the securities will experience losses according to their seniority level with the least senior (or most junior), typically the unrated residual tranche, taking the initial loss. The credit ratings of our securities reflect the seniority of the securities that we own. Our RMBS had a market value of \$9.4 billion and an unrealized loss of \$923 million, or 10%, as of September 30, 2008. The unrealized loss was due primarily to deteriorating fundamentals and a general level of illiquidity in the market and resulting in price declines in many structured products.

The market value of investments backed by subprime loans was \$574 million and represented 1% of our total investment portfolio as of September 30, 2008. Investments rated A or above represented 91% of the subprime investments and \$288 million in market value of our subprime investments was backed by loans originating in 2005 and forward. Available-for-sale securities represent most of the subprime exposure with trading securities being only \$15 million, or 3%, as of September 30, 2008. The tables below summarize our investments in available-for-sale securities backed by pools of residential mortgages (in millions):

	Fair Value as of September 30, 2008				
	Prime Agency	Prime/Non - Agency	Alt-A	Subprime	Total
Type					
Collateralized mortgage obligations and pass-throughs	\$ 6,588	\$ 1,146	\$ 634	\$	\$ 8,368
Asset-backed securities home equity			309	559	868
Total ⁽¹⁾	\$ 6,588	\$ 1,146	\$ 943	\$ 559	\$ 9,236
Rating					
AAA	\$ 6,549	\$ 915	\$ 645	\$ 385	\$ 8,494
AA	20	125	119	104	368
A	19	46	44	19	128
BBB		47	91	47	185
BB and below		13	44	4	61
Total ⁽¹⁾	\$ 6,588	\$ 1,146	\$ 943	\$ 559	\$ 9,236
Origination Year					
2004 and prior	\$ 3,183	\$ 376	\$ 337	\$ 275	\$ 4,171
2005	865	225	243	201	1,534
2006	361	186	310	83	940
2007	2,179	359	53		2,591
Total ⁽¹⁾	\$ 6,588	\$ 1,146	\$ 943	\$ 559	\$ 9,236

⁽¹⁾ Does not include the fair value of trading securities totaling \$196 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$196 million in trading securities consisted of \$158 million prime, \$23 million Alt-A and \$15 million subprime.

Type	Amortized Cost as of September 30, 2008				
	Prime Agency	Prime/Non - Agency	Alt-A	Subprime	Total
Collateralized mortgage obligations and pass throughs	\$ 6,565	\$ 1,500	\$ 885	\$	\$ 8,950
Asset-backed securities home equity			427	756	1,183
Total ⁽¹⁾	\$ 6,565	\$ 1,500	\$ 1,312	\$ 756	\$ 10,133
Rating					
AAA	\$ 6,526	\$ 1,103	\$ 785	\$ 469	\$ 8,883
AA	20	175	170	152	517
A	18	106	75	32	231
BBB	1	78	144	94	317
BB and below		38	138	9	185
Total ⁽¹⁾	\$ 6,565	\$ 1,500	\$ 1,312	\$ 756	\$ 10,133
Origination Year					
2004 and prior	\$ 3,167	\$ 430	\$ 399	\$ 340	\$ 4,336
2005	883	273	331	265	1,752
2006	361	272	471	151	1,255
2007	2,154	525	111		2,790
Total ⁽¹⁾	\$ 6,565	\$ 1,500	\$ 1,312	\$ 756	\$ 10,133

⁽¹⁾ Does not include the amortized cost of trading securities totaling \$221 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$221 million in trading securities consisted of \$167 million prime, \$35 million Alt-A and \$19 million subprime.

None of these investments include any direct investments in subprime lenders or mortgages. We are not aware of material exposure to subprime loans in our alternative asset portfolio.

The following summarizes our investments in available-for-sale securities backed by pools of consumer loan asset-backed securities (in millions):

Rating	As of September 30, 2008					
	Credit Card ⁽¹⁾		Auto Loans		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
AAA	\$ 119	\$ 139	\$	\$	\$ 119	\$ 139
AA						
BBB	23	26			23	26
Total ⁽²⁾	\$ 142	\$ 165	\$	\$	\$ 142	\$ 165

⁽¹⁾ Additional indirect credit card exposure through structured securities is excluded from this table. See Credit-Linked Notes section below and in Note 4.

⁽²⁾

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Does not include the fair value of trading securities totaling \$3 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$3 million in trading securities consisted of credit card securities.

The following summarizes our investments in available-for-sale securities backed by pools of commercial mortgages (in millions):

Type	As of September 30, 2008							
	Multiple Property		Single Property		Commercial Real Estate Collateralized Debt Obligations		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Commercial mortgage-backed securities	\$ 2,194	\$ 2,422	\$ 124	\$ 166	\$	\$	\$ 2,318	\$ 2,588
Commercial real estate collateralized debt obligations					49	61	49	61
Total ⁽¹⁾	\$ 2,194	\$ 2,422	\$ 124	\$ 166	\$ 49	\$ 61	\$ 2,367	\$ 2,649
Rating								
AAA	\$ 1,553	\$ 1,637	\$ 68	\$ 71	\$ 27	\$ 38	\$ 1,648	\$ 1,746
AA	372	419			3	3	375	422
A	151	187	51	72	19	20	221	279
BBB	95	140	5	23			100	163
BB and below	23	39					23	39
Total ⁽¹⁾	\$ 2,194	\$ 2,422	\$ 124	\$ 166	\$ 49	\$ 61	\$ 2,367	\$ 2,649
Origination Year								
2004 and prior	\$ 1,562	\$ 1,647	\$ 77	\$ 80	\$ 22	\$ 23	\$ 1,661	\$ 1,750
2005	310	370	40	61	10	15	360	446
2006	192	242	7	25	17	23	216	290
2007	130	163					130	163
Total ⁽¹⁾	\$ 2,194	\$ 2,422	\$ 124	\$ 166	\$ 49	\$ 61	\$ 2,367	\$ 2,649

⁽¹⁾ Does not include the fair value of trading securities totaling \$95 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$95 million in trading securities consisted of \$92 million commercial mortgage-backed securities and \$3 million commercial real estate collateralized debt obligations.

Monoline insurers provide guarantees on debt for issuers, often in the form of credit wraps, which enhance the credit of the issuer. Monoline insurers guarantee the timely repayment of bond principal and interest when a bond issuer defaults and generally provide credit enhancement for bond issues such as municipal bonds and private placements as well as other types and structures of securities. Our direct exposure represents our bond holdings of the actual Monoline insurers. Our insured bonds represent our holdings in bonds of other issuers that are insured by Monoline insurers.

The following summarizes our exposure to Monoline insurers (in millions):

Monoline Name	Direct Exposure	Insured Bonds ⁽¹⁾	As of September 30, 2008		Total Unrealized Loss	Total Fair Value
			Total Amortized Cost	Total Unrealized Gain		
AMBAC	\$	\$ 272	\$ 272	\$ 2	\$ 49	\$ 225
ASSURED GUARANTY LTD	30		30			30
FGIC	3	100	103		31	72
FSA		68	68	1	5	64
MBIA	12	125	137	1	20	118
MGIC	11	7	18	1	4	15
PMI GROUP INC	27		27		12	15
RADIAN GROUP INC	19		19		9	10
SECURITY CAPITAL ASSURANCE LTD	1		1	1		2
XL CAPITAL LTD	73	73	146	1	27	120
Total ⁽²⁾	\$ 176	\$ 645	\$ 821	\$ 7	\$ 157	\$ 671

(1) Additional indirect insured exposure through structured securities is excluded from this table. See Credit-Linked Notes in Note 4.

(2) Does not include the fair value of trading securities totaling \$33 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$33 million in trading securities consisted of \$10 million of direct exposure and \$23 million of insured exposure. This table also excludes insured exposure totaling \$15 million for a guaranteed investment tax credit partnership.

Credit-Linked Notes

As of September 30, 2008, and December 31, 2007, other contract holder funds on our Consolidated Balance Sheets included \$600 million and \$1.2 billion outstanding in funding agreements of the Lincoln National Life Insurance Company (LNL), respectively. LNL invested the proceeds of \$850 million received for issuing three funding agreements in 2006 and 2007 into three separate credit-linked notes originated by third party companies. One of the credit linked notes totaling \$250 million was paid off at par in September 2008 and as a result, the related structure, including the funding agreement, was terminated. The two remaining credit-linked notes are asset-backed securities classified as corporate bonds in the tables in Note 4, and are reported as fixed maturity securities on our Consolidated Balance Sheets. An additional \$300 million funding agreement was assumed as a result of the merger of Jefferson-Pilot, but was not invested into credit-linked notes. This \$300 million funding agreement matured on June 2, 2008.

We earn a spread between the coupon received on the credit-linked notes and the interest credited on the funding agreement. Our credit-linked notes were created using a trust that combines highly rated assets with credit default swaps to produce a multi-class structured security. Our affiliate, Delaware Investments, actively manages the credit default swaps in the underlying portfolios. The high quality asset in these transactions is a AAA-rated asset-backed security secured by a pool of credit card receivables.

Consistent with other debt market instruments, we are exposed to credit losses within the structure of the credit-linked notes, 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 credit-linked note, which requires the subordinated classes of the investment pool to absorb all of the initial credit losses. LNL owns the mezzanine tranche of these investments. Generally, based upon our models, the transactions can sustain anywhere from 6-10 defaults, depending on the transaction, in the underlying collateral pools with no loss to LNL. However, if that number of defaults is realized, any additional defaults will significantly impact our recovery. Once the subordination is completely exhausted, losses will be incurred on LNL's investment. In general, the entire investment can be lost with 4-5 additional defaults. To date, there has been one default in the underlying

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collateral pool of the \$400 million credit-linked note and two defaults in the underlying collateral pool of the \$200 million credit-linked note. There has not been an event of default on the credit linked notes themselves and we believe our subordination remains sufficient to absorb future initial credit losses. Similar to other debt market instruments our maximum principal loss is limited to our original investment of \$600 million as of September 30, 2008.

As in the general markets, spreads on these transactions have widened, causing unrealized losses. As of September 30, 2008, we had unrealized losses of \$421 million on the \$600 million in credit-linked notes. As described more fully in Note 1 of our 2007 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments. Based upon this review and the information in the paragraph above, we believe that these securities were not other-than-temporarily impaired as of September 30, 2008, and December 31, 2007. The following summarizes the fair value to amortized cost ratio of the credit-linked notes:

	As of October 31, 2008	As of September 30, 2008	As of December 31, 2007
Fair value	\$ 104	\$ 179	\$ 660
Amortized cost	600	600	850
Fair value to amortized cost ratio	17%	30%	78%

The following summarizes the exposure of the credit-linked notes underlying collateral by industry and rating as of September 30, 2008:

Industry	AAA	AA	A	BBB	BB	B	Total
Telecommunications	0%	0%	5%	5%	0%	1%	11%
Financial intermediaries	0%	7%	2%	2%	0%	0%	11%
Oil and gas	0%	2%	2%	4%	0%	0%	8%
Insurance	0%	1%	3%	0%	0%	0%	4%
Utilities	0%	0%	4%	0%	0%	0%	4%
Chemicals and plastics	0%	0%	2%	2%	0%	0%	4%
Retailers, except food and drug	0%	0%	1%	2%	0%	0%	3%
Industrial equipment	0%	0%	3%	0%	0%	0%	3%
Sovereigns	0%	0%	1%	2%	0%	0%	3%
Other industry < 4% (32 industries)	2%	5%	20%	19%	3%	0%	49%
Total	2%	15%	43%	36%	3%	1%	100%

Additional Details on our Unrealized Losses on Available-for-Sale Securities

When considering unrealized gain and loss information, it is important to recognize that the information relates to the status of securities at a particular point in time and may not be indicative of the status of our investment portfolios subsequent to the balance sheet date. Further, since the timing of the recognition of realized investment gains and losses through the selection of which securities are sold is largely at management's discretion, it is important to consider the information provided below within the context of the overall unrealized gain or loss position of our investment portfolios. These are important considerations that should be included in any evaluation of the potential impact of unrealized loss securities on our future earnings.

We have no concentrations of issuers or guarantors of fixed maturity and equity securities. The composition by industry categories of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss status (in millions), was as follows:

	As of September 30, 2008					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
Non-captive diversified	\$ 92	23.7%	\$ 194	32.0%	\$ 102	47.2%
Banking	178	45.6%	222	36.5%	44	20.4%
Gaming	15	3.8%	43	7.1%	29	13.4%
Property and casualty	30	7.7%	50	8.3%	20	9.2%
Non-captive consumer	18	4.6%	28	4.6%	9	4.2%
Food and beverage	3	0.8%	7	1.2%	4	1.9%
Financial other	6	1.5%	9	1.5%	3	1.4%
Real estate investment trusts	5	1.3%	7	1.2%	2	0.9%
Consumer cyclical services	2	0.5%	3	0.5%	2	0.9%
Entertainment	6	1.5%	8	1.3%	1	0.5%
Building materials	9	2.3%	9	1.5%		0.0%
Brokerage	1	0.3%	1	0.2%		0.0%
Collateralized mortgage obligations	13	3.3%	13	2.1%		0.0%
Media non-cable	11	2.8%	11	1.8%		0.0%
ABS	1	0.3%	1	0.2%		0.0%
Total	\$ 390	100.0%	\$ 606	100.0%	\$ 216	100.0%

	As of December 31, 2007					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
Property and casualty	\$ 33	30.5%	\$ 48	35.8%	\$ 15	57.7%
Collateralized mortgage obligations	17	15.7%	25	18.7%	8	30.8%
Commercial mortgage-backed securities	2	1.9%	5	3.7%	3	11.5%
ABS	6	5.6%	6	4.5%		0.0%
Non-captive consumer	37	34.3%	37	27.6%		0.0%
Banking	8	7.4%	8	6.0%		0.0%
Consumer cyclical services	5	4.6%	5	3.7%		0.0%
Total	\$ 108	100.0%	\$ 134	100.0%	\$ 26	100.0%

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The composition by industry categories of all securities in unrealized loss status (in millions), was as follows:

	As of September 30, 2008					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
ABS	\$ 1,651	4.7%	\$ 2,481	6.2%	\$ 830	16.7%
Banking	3,851	11.0%	4,603	11.5%	752	15.1%
Collateralized mortgage obligations	3,393	9.7%	4,014	10.0%	621	12.5%
Commercial mortgage-backed securities	1,874	5.3%	2,153	5.4%	279	5.6%
Electric	3,340	9.5%	3,587	8.9%	247	5.0%
Non-captive diversified	375	1.1%	532	1.3%	157	3.2%
Pipelines	1,504	4.3%	1,638	4.1%	134	2.7%
Property and casualty insurers	864	2.5%	993	2.5%	129	2.6%
Brokerage	531	1.5%	654	1.6%	123	2.5%
Non-captive consumer	302	0.9%	391	1.0%	89	1.8%
Food and beverage	1,148	3.3%	1,233	3.1%	85	1.7%
Real estate investment trusts	822	2.3%	900	2.2%	78	1.6%
Distributors	870	2.5%	945	2.4%	75	1.5%
Retailers	654	1.9%	727	1.8%	73	1.5%
Wirelines	742	2.1%	814	2.0%	72	1.5%
Financial other	444	1.3%	513	1.3%	69	1.4%
Paper	482	1.4%	543	1.4%	61	1.2%
Metals and mining	594	1.7%	654	1.6%	60	1.2%
Media non-cable	632	1.8%	692	1.7%	60	1.2%
Gaming	245	0.7%	304	0.8%	59	1.2%
Independent	575	1.6%	633	1.6%	58	1.2%
Life	496	1.4%	550	1.4%	54	1.1%
Diversified manufacturing	704	2.0%	757	1.9%	53	1.1%
Home construction	256	0.7%	309	0.8%	53	1.1%
Integrated	392	1.1%	434	1.1%	42	0.8%
Entertainment	518	1.5%	556	1.4%	38	0.8%
Building materials	442	1.3%	478	1.2%	36	0.7%
Owned no guarantee	245	0.7%	281	0.7%	36	0.7%
Transportation services	388	1.1%	422	1.1%	34	0.7%
Chemicals	484	1.4%	518	1.3%	34	0.7%
Pharmaceuticals	572	1.6%	605	1.5%	33	0.7%
Technology	483	1.4%	515	1.3%	32	0.6%
Automotive	219	0.6%	251	0.6%	32	0.6%
Refining	216	0.6%	243	0.6%	27	0.5%
Health insurance	296	0.8%	322	0.8%	26	0.5%
Sovereigns	287	0.8%	313	0.8%	26	0.5%
Wireless	257	0.7%	283	0.7%	26	0.5%

	As of September 30, 2008					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Continued from Above)						
Industrial other	395	1.1%	420	1.0%	25	0.5%
Non agency	121	0.3%	146	0.4%	25	0.5%
Oil field services	366	1.0%	388	1.0%	22	0.4%
Railroads	231	0.7%	253	0.6%	22	0.4%
Consumer products	360	1.0%	379	0.9%	19	0.4%
Healthcare	357	1.0%	376	0.9%	19	0.4%
Airlines	71	0.2%	88	0.2%	17	0.3%
Utility other	112	0.3%	126	0.3%	14	0.3%
Media cable	111	0%	125	0.3%	14	0.3%
Unassigned	65	0%	76	0.2%	11	0.2%
Packaging	168	0.5%	179	0.4%	11	0.2%
Industries with unrealized losses less than \$10	1,638	4.6%	1,710	4.2%	72	1.6%
Total	\$ 35,143	100.0%	\$ 40,107	100.0%	\$ 4,964	100.0%

	As of December 31, 2007					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
ABS	\$ 1,946	9.4%	\$ 2,239	10.2%	\$ 293	24.4%
Banking	3,147	15.0%	3,328	15.1%	181	15.1%
Collateralized mortgage obligations	2,881	13.8%	3,010	13.7%	129	10.8%
Commercial mortgage-backed securities	1,083	5.2%	1,153	5.2%	70	5.8%
Electric	1,406	6.8%	1,440	6.5%	34	2.9%
Property and casualty insurers	494	2.4%	528	2.4%	34	2.8%
Non-captive diversified	314	1.5%	347	1.6%	33	2.7%
Home construction	287	1.4%	319	1.5%	32	2.7%
Media non-cable	223	1.1%	254	1.2%	31	2.6%
Retailers	443	2.1%	469	2.1%	26	2.2%
Non-captive consumer	258	1.2%	284	1.3%	26	2.2%
Pipelines	593	2.9%	614	2.8%	21	1.7%
Real estate investment trusts	572	2.8%	593	2.7%	21	1.7%
Paper	273	1.3%	291	1.3%	18	1.5%
Financial other	354	1.7%	371	1.7%	17	1.4%
Brokerage	434	2.1%	449	2.0%	15	1.2%
Gaming	126	0.6%	140	0.6%	14	1.2%
Distributors	429	2.1%	442	2.0%	13	1.1%
Food and beverage	419	2.0%	431	2.0%	12	1.0%
Metals and mining	328	1.6%	338	1.5%	10	0.8%
Building materials	226	1.1%	236	1.1%	10	0.8%
Automotive	184	0.9%	194	0.9%	10	0.8%
Industries with unrealized losses less than \$10	4,370	21.0%	4,522	20.6%	152	12.6%
Total	\$ 20,790	100.0%	\$ 21,992	100.0%	\$ 1,202	100.0%

Unrealized Loss on Below-Investment-Grade Available-for-Sale Fixed Maturity Securities

Gross unrealized losses on available-for-sale below-investment-grade fixed maturity securities represented 11.0% and 12.1% of total gross unrealized losses on all available-for-sale securities as of September 30, 2008, and December 31, 2007, respectively. Generally, below-investment-grade fixed maturity securities are more likely than investment-grade securities to develop credit concerns. The remaining 89.0% and 87.9% of the gross unrealized losses as of September 30, 2008, and December 31, 2007, respectively, relate to investment grade available-for-sale securities. The ratios of estimated fair value to amortized cost reflected in the table below were not necessarily indicative of the market value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of these ratios subsequent to September 30, 2008.

Details underlying fixed maturity securities below investment grade and in an unrealized loss position (in millions) were as follows:

Aging Category	Ratio of Amortized Cost to Fair Value	As of September 30, 2008		
		Fair Value	Amortized Cost	Unrealized Loss
< or = 90 days	70% to 100%	\$ 481	\$ 505	\$ 24
	40% to 70%			
	Below 40%	2	10	8
< or = 90 days total		483	515	32
>90 days but < or = 180 days	70% to 100%	478	520	42
	40% to 70%	12	19	7
	Below 40%	1	12	11
>90 days but < or = 180 days total		491	551	60
>180 days but < or = 270 days	70% to 100%	156	180	24
	40% to 70%	19	30	11
	Below 40%	2	9	7
>180 days but < or = 270 days total		177	219	42
>270 days but < or = 1 year	70% to 100%	139	160	21
	40% to 70%	23	39	16
	Below 40%	20	65	45
>270 days but < or = 1 year total		182	264	82
>1 year	70% to 100%	796	930	134
	40% to 70%	126	196	70
	Below 40%	31	156	125
>1 year total		953	1,282	329
Total below-investment-grade		\$ 2,286	\$ 2,831	\$ 545

Aging Category	Ratio of Amortized Cost to Fair Value	As of December 31, 2007		
		Fair Value	Amortized Cost	Unrealized Loss
< or = 90 days	70% to 100%	\$ 446	\$ 468	\$ 22
	40% to 70%		1	1
< or = 90 days total		446	469	23
>90 days but < or = 180 days	70% to 100%	218	231	13
	40% to 70%	1	1	
>90 days but < or = 180 days total		219	232	13
>180 days but < or = 270 days	70% to 100%	378	408	30
>180 days but < or = 270 days total		378	408	30
>270 days but < or = 1 year	70% to 100%	121	135	14
>270 days but < or = 1 year total		121	135	14
>1 year	70% to 100%	328	362	34
	40% to 70%	52	84	32
>1 year total		380	446	66
Total below-investment-grade		\$ 1,544	\$ 1,690	\$ 146

Unrealized Loss on Fixed Maturity and Equity Securities Available-for-Sale in Excess of \$10 million

As of September 30, 2008, available-for-sale fixed maturity and equity securities with gross unrealized losses greater than \$10 million (in millions) for investment grade securities were as follows:

		As of September 30, 2008		
Average Length of Time		Fair	Amortized	Unrealized
in Loss Position		Value	Cost	Loss
Investment Grade				
Credit-linked notes	>1 year	\$ 122	\$ 400	\$ 278
Credit-linked notes	>1 year	57	200	143
Domestic bank and finance	>270 days but < = 1 year	420	522	102
Domestic bank and finance	>180 days but < or = 270 days	127	195	68
Domestic brokerage	>180 days but < or = 270 days	101	148	47
UK bank and finance	>270 days but < = 1 year	138	179	41
Domestic bank and finance	>1 year	74	113	39
Domestic finance	>180 days but < or = 270 days	43	82	39
Domestic brokerage	>180 days but < or = 270 days	163	198	35
Domestic bank and finance	>1 year	117	145	28
Domestic bank and finance	>180 days but < or = 270 days	117	144	27
International technology and services	>180 days but < or = 270 days	170	196	26
Domestic finance	>1 year	43	67	24
Mortgage related ABS	>1 year	22	46	24
Domestic bank and finance	>90 days but < or = 180 days	181	203	22
Domestic bank and finance	>180 days but < or = 270 days	139	161	22
Domestic bank and finance	>180 days but < or = 270 days	54	76	22
Domestic brokerage	>1 year	77	98	21
Domestic finance	>1 year	23	44	21
Mortgage related MBS	>270 days but < = 1 year	21	42	21
UK bank and finance	>270 days but < = 1 year	42	62	20
International communications	>1 year	175	194	19
International aircraft leasing	>270 days but < = 1 year	25	44	19
Domestic bank and finance	>1 year	35	54	19
Domestic bank and finance	>270 days but < = 1 year	40	59	19
UK bank and finance	>1 year	131	149	18
International beverage	>1 year	97	115	18
Mortgage related MBS	>1 year	19	37	18
Mortgage related MBS	>1 year	22	40	18
Domestic bank and finance	>1 year	29	46	17
Mortgage related ABS	>1 year	8	25	17
Property and casualty insurance	>1 year	56	72	16
International bank and finance	>1 year	86	102	16
International forestry	>1 year	82	98	16
Mortgage related MBS	>1 year	13	29	16
International real estate	>1 year	60	76	16
Domestic bank and finance	>1 year	69	85	16
UK bank and finance	>1 year	52	68	16
Property and casualty insurance	>90 days but < or = 180 days	56	72	16
Domestic retailer	>1 year	65	80	15
International finance	>180 days but < or = 270 days	88	103	15
Mortgage related MBS	>1 year	40	55	15
Domestic energy	>180 days but < or = 270 days	111	126	15
International energy	>90 days but < or = 180 days	97	111	14
Mortgage related MBS	>180 days but < or = 270 days	49	63	14

		As of September 30, 2008			
		Length of Time	Fair	Amortized	Unrealized
		in Loss Position	Value	Cost	Loss
(Continued from Above)					
Investment Grade					
Mortgage related MBS	>1 year		3	17	14
Mortgage related ABS	>1 year		26	40	14
International bank and finance	>180 days but < or = 270 days		16	30	14
Mortgage related ABS	>180 days but < or = 270 days		19	33	14
International energy	>270 days but < = 1 year		147	160	13
Domestic bank and finance	>90 days but < or = 180 days		58	71	13
International bank and finance	>1 year		49	62	13
Domestic communications	>90 days but < or = 180 days		132	145	13
Mortgage related MBS	>1 year		21	34	13
Domestic energy	>90 days but < or = 180 days		120	133	13
International energy	>1 year		76	89	13
Mortgage related ABS	>1 year		44	57	13
International energy	>1 year		95	108	13
International bank and finance	>1 year		35	48	13
International energy	>1 year		27	40	13
Professional services	>270 days but < = 1 year		68	80	12
Mortgage related MBS	>180 days but < or = 270 days		22	34	12
Domestic energy	>1 year		81	93	12
Mortgage related ABS	>270 days but < = 1 year		17	29	12
Domestic insurance	>1 year		15	27	12
International bank and finance	>270 days but < = 1 year		82	94	12
International metals and mining	>1 year		76	88	12
International bank and finance	>1 year		8	19	11
Mortgage related MBS	>1 year		9	20	11
International investment company	>270 days but < = 1 year		46	57	11
Mortgage related ABS	>1 year		5	16	11
Automotive rentals	>1 year		46	57	11
Domestic healthcare	>180 days but < or = 270 days		129	140	11
Domestic energy	>270 days but < = 1 year		99	110	11
Property and casualty insurance	>270 days but < = 1 year		29	40	11
Domestic energy	>1 year		114	125	11
Domestic healthcare	>180 days but < or = 270 days		113	124	11
Domestic energy	>1 year		65	75	10
Mortgage related MBS	>1 year		28	38	10
Domestic energy	>180 days but < or = 270 days		111	121	10
Mortgage related MBS	>1 year		15	25	10
Total investment grade			\$ 5,802	\$ 7,703	\$ 1,901

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As of September 30, 2008, available-for-sale fixed maturity and equity securities with gross unrealized losses greater than \$10 million (in millions) for non investment grade securities were as follows:

	Length of Time in Loss Position	As of September 30, 2008		
		Fair Value	Amortized Cost	Unrealized Loss
Non Investment Grade				
Domestic bank and finance	>270 days but <= 1 year	\$ 24	\$ 70	\$ 46
Domestic entertainment				