LINCOLN NATIONAL CORP
Form 10-Q
August 07, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009
OR

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

For the transition period from to

Commission File Number 1-6028

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

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

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

Not Applicable

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

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

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

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

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

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

As of August 3, 2009, there were 302,093,890 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 June 30, 2009 (Unaudited)	As of December 31, 2008
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2009 - $58,567; 2008 - $54,381)	$ 55,050	$ 48,141
Equity (cost: 2009 - $400; 2008 - $428)	236	254
Trading securities	2,317	2,333
Mortgage loans on real estate	7,468	7,715
Real estate	159	125
Policy loans	2,897	2,921
Derivative investments	1,234	3,397
Other investments	1,187	1,624
Total investments	70,548	66,510
Cash and invested cash	2,539	5,754
Deferred acquisition costs and value of business acquired	10,456	11,402
Premiums and fees receivable	429	481
Accrued investment income	881	814
Reinsurance recoverables	7,729	8,396
Reinsurance related derivative assets	46	31
Goodwill	3,344	3,944
Other assets	9,982	10,149
Separate account assets	61,091	55,655
Total assets	$ 167,045	$ 163,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 16,128	$ 18,431
Other contract holder funds	62,427	60,570
Short-term debt	455	815
Long-term debt	4,775	4,731
Funds withheld reinsurance liabilities	1,222	2,042
Deferred gain on business sold through reinsurance	529	619
Payables for collateral under securities loaned and derivatives	1,712	3,706
Other liabilities	9,631	8,590
Separate account liabilities	61,091	55,655
Total liabilities	157,970	155,159
Contingencies and Commitments (See Note 11)		

Stockholders' Equity		
Series A preferred stock - 10,000,000 shares authorized	-	-
Common stock - 800,000,000 shares authorized; 302,093,017 and 255,869,859 shares issued and outstanding as of June 30, 2009, and December 31, 2008, respectively	7,681	7,035
Retained earnings	3,101	3,745
Accumulated other comprehensive loss	(1,707)	(2,803)
Total stockholders' equity	9,075	7,977
Total liabilities and stockholders' equity	$ 167,045	$ 163,136

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(Unaudited)			
Revenues				
Insurance premiums	$ 542	$ 503	$ 1,050	$ 993
Insurance fees	689	792	1,393	1,560
Investment advisory fees	48	76	92	152
Net investment income	971	1,057	1,984	2,102
Realized loss:				
Total other-than-temporary impairment losses on securities	(221)	(100)	(431)	(158)
Portion of loss recognized in other comprehensive income	103	-	192	-
Net other-than-temporary impairment losses on securities recognized in earnings	(118)	(100)	(239)	(158)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(323)	-	(392)	23
Total realized loss	(441)	(100)	(631)	(135)
Amortization of deferred gain on business sold through reinsurance	18	19	37	38
Other revenues and fees	125	146	227	291
Total revenues	1,952	2,493	4,152	5,001
Benefits and Expenses				
Interest credited	599	613	1,226	1,224
Benefits	583	655	1,504	1,304
Underwriting, acquisition, insurance and other expenses	752	805	1,458	1,577
Interest and debt expense	61	65	61	140
Impairment of intangibles	(1)	175	602	175
Total benefits and expenses	1,994	2,313	4,851	4,420
Income (loss) from continuing operations before taxes	(42)	180	(699)	581
Federal income tax expense (benefit)	(41)	68	(114)	187
Income (loss) from continuing operations	(1)	112	(585)	394
Income (loss) from discontinued operations, net of federal income taxes	(160)	13	(155)	20
Net income (loss)	$ (161)	$ 125	$ (740)	$ 414
Earnings (Loss) Per Common Share - Basic				

Income (loss) from continuing operations	$	-		$	0.43	$	(2.27	)	$	1.51
Income (loss) from discontinued operations		(0.62	)		0.05		(0.60	)		0.08
Net income (loss)	$	(0.62	)	$	0.48	$	(2.87	)	$	1.59
Earnings (Loss) Per Common Share - Diluted										
Income (loss) from continuing operations	$	-		$	0.43	$	(2.27	)	$	1.50
Income (loss) from discontinued operations		(0.62	)		0.05		(0.60	)		0.08
Net income (loss)	$	(0.62	)	$	0.48	$	(2.87	)	$	1.58

See accompanying Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2009	2008
	(Unaudited)	
Common Stock		
Balance as of beginning-of-year	$7,035	$7,200
Issuance of common stock	652	-
Stock compensation/issued for benefit plans	(9)	41
Deferred compensation payable in stock	3	3
Retirement of common stock/cancellation of shares	-	(221)
Balance as of end-of-period	7,681	7,023
Retained Earnings		
Balance as of beginning-of-year	3,745	4,293
Cumulative effect of adoption of EITF 06-10	-	(4)
Cumulative effect of adoption of FSP 115-2	102	-
Comprehensive income (loss)	458	(619)
Less other comprehensive income (loss), net of tax	1,198	(1,033)
Net income (loss)	(740)	414
Retirement of common stock	-	(205)
Dividends declared: Common (2009 - $0.02; 2008 - $0.83)	(6)	(215)
Balance as of end-of-period	3,101	4,283
Net Unrealized Loss on Available-for-Sale Securities		
Balance as of beginning-of-year	(2,654)	86
Cumulative effect of adoption of FSP 115-2	(84)	-
Change during the period	1,289	(1,025)
Balance as of end-of-period	(1,449)	(939)
Unrealized Other-Than-Temporary Impairment on Available-for-Sale Securities		
Balance as of beginning-of-year	-	-
Cumulative effect of adoption of FSP 115-2	(18)	-
Change during the period	(100)	-
Balance as of end-of-period	(118)	-
Net Unrealized Gain on Derivative Instruments		
Balance as of beginning-of-year	127	53
Change during the period	(73)	(12)
Balance as of end-of-period	54	41
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	6	175
Change during the period	86	2
Balance as of end-of-period	92	177
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	(282)	(89)
Change during the period	(4)	2

Balance as of end-of-period	(286)	(87)
Total stockholders' equity as of end-of-period	$9,075	$10,498

See accompanying Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2009	2008
Cash Flows from Operating Activities	(Unaudited)	
Net income (loss)	$(740)	$414
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front end loads deferrals and interest, net of amortization	(160)	(454)
Trading securities purchases, sales and maturities, net	35	96
Change in premiums and fees receivable	129	71
Change in accrued investment income	(67)	(33)
Change in future contract benefits	(462)	291
Change in other contract holder funds	213	183
Change in funds withheld reinsurance liability and reinsurance recoverables	89	(31)
Change in federal income tax accruals	110	(230)
Realized loss	631	135
Loss on disposal of discontinued operations	237	12
Impairment of intangibles	602	175
Amortization of deferred gain on business sold through reinsurance	(37)	(38)
Stock-based compensation expense	14	19
Other	(147)	(159)
Net cash provided by operating activities	447	451
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(7,661)	(3,615)
Sales of available-for-sale securities	2,078	1,014
Maturities of available-for-sale securities	1,619	1,924
Purchases of other investments	(2,564)	(1,213)
Sales or maturities of other investments	2,942	914
Increase (decrease) in payables for collateral under securities loaned and derivatives	(1,994)	355
Proceeds from sale of subsidiaries/businesses and disposal of discontinued operations	4	644
Other	(28)	(53)
Net cash used in investing activities	(5,604)	(30)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(522)	(100)
Issuance of long-term debt	495	-
Decrease in commercial paper, net	(112)	(65)
Deposits of fixed account values, including the fixed portion of variable	5,795	4,913
Withdrawals of fixed account values, including the fixed portion of variable	(3,285)	(2,787)
Transfers to and from separate accounts, net	(1,028)	(1,233)
Payment of funding agreements	-	(300)
Issuance of common stock	652	-
Common stock issued for benefit plans and excess tax benefits	(20)	25
Repurchase of common stock	-	(401)
Dividends paid to stockholders	(56)	(217)

Net cash provided by (used in) financing activities	1,919	(165)
Net increase (decrease) in cash and invested cash, including discontinued operations	(3,238)	256
Cash and invested cash, including discontinued operations, as of beginning-of-year	5,926	1,665
Cash and invested cash, including discontinued operations, as of end-of-period	$2,688	$1,921

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 five 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 ("UL") insurance, variable universal life ("VUL") 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, 2008 ("2008 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

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

We have evaluated our subsequent events through the time of filing this Form 10-Q with the SEC, on August 7, 2009. For details of our subsequent events see Note 19.

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

2. New Accounting Standards

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 141(R) – Business Combinations

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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. For a more detailed description of SFAS 141(R), see Note 2 of our 2008 Form 10-K. We adopted SFAS 141(R) for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

In April 2009, the FASB amended the guidance in SFAS 141(R) related to the recognition and measurement of contingencies acquired in a business combination by issuing FASB Staff Position ("FSP") No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies" ("FSP 141(R)-1"). FSP 141(R)-1 clarifies that contingent assets acquired and liabilities assumed (jointly referred to as "pre-acquisition contingencies") in a business combination are measured at the acquisition-date fair value only if fair value can be determined during the measurement period. If the fair value cannot be determined during the measurement period, but information is available at the end of the measurement period indicating the pre-acquisition contingency is both probable and can be reasonably estimated, then the pre-acquisition contingency is recognized at the acquisition date based on the estimated amount. Subsequent to the acquisition date, the measurement of pre-acquisition contingencies is dependent on the nature of the contingency. We adopted FSP 141(R)-1 for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

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 ("ARB") No. 51" ("SFAS 160"), which establishes accounting and reporting standards surrounding noncontrolling interests, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. For a more detailed description of SFAS 160, see Note 2 of our 2008 Form 10-K. We adopted SFAS 160 effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition and results of operations.

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

In February 2008, the FASB issued FSP No. FAS 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 Extinguishments of Liabilities – a replacement of FASB Statement No. 125." For a more detailed description of FSP 140-3, see Note 2 of our 2008 Form 10-K. We adopted FSP 140-3 effective January 1, 2009, and applied the guidance prospectively to initial transfers and repurchase financings executed after that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

FSP No. FAS 157-2 – Effective Date of FASB Statement No. 157

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-2 delayed the effective date of SFAS No. 157, "Fair Value Measurements" ("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).

We applied the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009. The application did not have a material impact on our consolidated financial condition and results of operations.

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 the qualitative and quantitative disclosure requirements for derivative instruments and hedging activities. For a more detailed description of the new disclosure requirements, see Note 2 of our 2008 Form 10-K. The amended and expanded disclosure requirements apply to all derivative instruments within the scope of SFAS 133, nonderivative hedging instruments and all hedged items designated and qualifying as hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). We adopted SFAS 161 effective January 1, 2009, and have prospectively included the enhanced disclosures related to derivative instruments and hedging activities in our financial statements in Note 6.

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

In April 2008, the FASB issued FSP No. FAS 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. For a more detailed description of FSP 142-3, see Note 2 of our 2008 Form 10-K. We adopted FSP 142-3 effective January 1, 2009, and applied the guidance prospectively to recognized intangible assets acquired after the effective date and applied the disclosure requirements to all intangible assets recognized as of, and subsequent to, the effective date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

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." For a more detailed description of SFAS 163, see Note 2 of our 2008 Form 10-K. We do not hold a significant amount of financial guarantee insurance and reinsurance contracts, and as such, the adoption of SFAS 163 on January 1, 2009 did not have a material impact on our consolidated financial condition and results of operations.

Emerging Issues Task Force No. 07-5 – Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock

In June 2008, the FASB issued Emerging Issues Task Force ("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 a two-step process to determine whether an equity-linked instrument (or embedded feature) is indexed to an entity's own stock first by evaluating the instrument's contingent exercise provisions, if any, and second, by evaluating the instrument's settlement provisions. We adopted EITF 07-5 on January 1, 2009, for all outstanding instruments as of that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

EITF No. 08-6 – Equity Method Investment Accounting Considerations

In November 2008, the FASB issued EITF No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"), which addresses the effect of SFAS 141(R) and SFAS 160 on equity-method accounting under Accounting Principles Board Opinion 18, "The Equity Method of Accounting for Investments in Common Stock." For a more detailed description of EITF 08-6, see Note 2 of our 2008 form 10-K. We adopted EITF 08-6 on January 1, 2009, prospectively for all investments accounted for under the equity method. The adoption did not have a material impact on our consolidated financial condition and results of operations.

FSP No. FAS 115-2 and FAS 124-2 – Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP 115-2"), which replaces the requirement in FSP No. FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" for management to assert that it has the intent and ability to hold an impaired debt security until recovery with the requirement that management assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. If management intends to sell the debt security or it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment ("OTTI") shall be recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value at the balance sheet date. After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings.

If management does not intend to sell the debt security and it is not more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, but the present value of the cash flows expected to be collected is less than the amortized cost basis of the debt security (referred to as the credit loss), an OTTI is considered to have occurred. In this instance, FSP 115-2 requires the bifurcation of the total OTTI into the amount related to the credit loss, which is recognized in earnings, with the remaining amount of the total OTTI attributed to other factors (referred to as the noncredit portion) and recognized as a separate component in other comprehensive income (loss)

("OCI"). After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. In addition, FSP 115-2 expands and increases the frequency of existing disclosures about OTTIs for debt and equity securities regarding expected cash flows, credit losses and an aging of securities with unrealized losses.

As permitted by the transition guidance, we elected to early adopt FSP 115-2 effective January 1, 2009, by recording an increase of $102 million to the opening balance of retained earnings with a corresponding decrease to accumulated OCI on our Consolidated Statements of Stockholders' Equity to reclassify the noncredit portion of previously other-than-temporarily impaired debt securities held as of January 1, 2009. The following summarizes the components (in millions) for this cumulative effect adjustment:

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

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

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

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

The impact to the three and six months ended June 30, 2009 for the adoption of FSP 115-2 to basic and diluted per share amounts was an increase of $0.40 and $0.74 per share, respectively.

In addition, we have enhanced our financial statement presentation as required under FSP 115-2, to separately present the OTTI recognized in accumulated OCI on the face of our Consolidated Statements of Stockholders' Equity and present the total OTTI recognized in realized loss, with an offset for the amount of noncredit impairments recognized in accumulated OCI, on the face of our Consolidated Statements of Income (Loss). The enhanced financial statement disclosures required under FSP 115-2 are included in Note 5.

FSP No. FAS 157-4 – Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP

157-4”), which amends SFAS 157 to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability and additional guidance on circumstances that may indicate that a transaction is not orderly. FSP 157-4 provides an illustrative example of key considerations when applying the principles in SFAS 157 in estimating fair value in nonactive markets when there has been a significant decrease in the volume and level of activity for the asset. FSP 157-4 also requires additional disclosures about fair value measurements in annual and interim reporting periods. Any changes in valuation techniques resulting from the adoption of FSP 157-4 are accounted for as a change in accounting estimate in accordance with SFAS No. 154, “Accounting Changes and Error Corrections.” As permitted under the transition guidance, we elected to early adopt FSP 157-4 effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

FSP No. FAS 107-1 and APB 28-1 – Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1"), which extends the disclosure requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to interim financial statements. FSP 107-1 also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in the financial statements on an interim basis and to highlight any changes of the method(s) and significant assumptions from prior periods. We adopted FSP 107-1 as of June 30, 2009 and have included the enhanced disclosures related to the fair value of financial instruments in our financial statements and in Note 16.

SFAS No. 165 – Subsequent Events

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS 165"), which establishes standards of accounting for the disclosure of events that take place after the balance sheet date, but before the financial statements are issued. SFAS 165 requires the recognition in the financial statements of the effect of all subsequent events that provide information about conditions that existed as of the balance sheet date. For those events that did not exist as of the balance sheet date, but arose after the balance sheet date and before the financial statements are issued, recognition is not required, but depending on the nature of the unrecognized subsequent event, disclosure of the event may be required in order to keep the financial statements from being misleading. SFAS 165 requires disclosure in the financial statements of the date through which subsequent events have been evaluated. We adopted the provisions of SFAS 165, prospectively, as of the interim reporting period ending June 30, 2009 and have include the enhanced disclosures in Note 1 and Note 19. The adoption of SFAS 165 did not have a material impact on our consolidated financial condition or results of operations.

Future Adoption of New Accounting Standards

FSP No. FAS 132(R)-1 – Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP 132(R)-1"), which requires enhanced disclosures of the plan assets of an employer's defined benefit pension or other postretirement benefit plans. The disclosures required under FSP 132(R)-1 will include information regarding the investment allocation decisions made for plan assets, the fair value of each major category of plan assets disclosed separately for pension plans and other postretirement benefit plans and the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy as defined by SFAS 157. FSP 132(R)-1 requires the additional disclosure in SFAS 157 for Level 3 fair value measurements must also be provided for the fair value measurements of plan assets using Level 3 inputs. The disclosures in FSP 132(R)-1 are effective for fiscal years ending after December 15, 2009, and are not required for earlier periods presented for comparative purposes. We will include the disclosures required in FSP 132(R)-1 in the notes to our consolidated financial statements for the year ending December 31, 2009.

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

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("SFAS 166"), which, among other things, eliminates the concept of a qualifying special-purpose entity and removes the scope exception for a qualifying special-purposes entity ("SPE") from the consolidation guidance in FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46(R)") As a result, previously unconsolidated qualifying SPEs must be re-evaluated for consolidation by the sponsor or transferor. In addition, SFAS 166 amends the accounting guidance related to transfers of financial assets in order to address practice issues that have been highlighted by the events of the recent economic decline. SFAS 166 is effective as of the beginning of the annual reporting period that begins after November 15, 2009. The recognition and measurement provisions of SFAS 166 will be applied to transfers that occur on or after the effective date, and all qualifying SPEs that exist on an after the effective date must be evaluated for consolidation. We will adopt the provisions of SFAS 166 effective January 1, 2010 and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

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

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which amends the consolidation guidance related to variable interest entities ("VIE") in FIN 46(R) to require entities to perform an analysis of their variable interests to determine if a controlling financial interest exists in the VIE. SFAS 167 eliminates the quantitative analysis currently used in FIN 46(R) to determine the primary beneficiary, and introduces a qualitative approach that is focused on identifying the variable interest that has the power to direct the activities that most significantly impact the performance of the VIE, and absorb losses or receive returns that could potentially be significant to the VIE. In addition, SFAS 167 will require an ongoing reassessment of the primary beneficiary of the VIE, which may impact the entity required to consolidate the VIE. SFAS 167 will be effective as of the beginning of the annual reporting period that begins after November 15, 2009, and requires that on the effective date all VIEs in which an entity has a variable interest be reconsidered for consolidation based on the amended guidance in SFAS 167. We will adopt the provisions of SFAS 167 effective January 1, 2010 and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

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

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162" ("SFAS 168"), which will become the single source of authoritative GAAP recognized by the FASB. SFAS 168 does not change current GAAP, but on the effective date, the FASB Accounting Standards CodificationTM ("Codification") will supersede all then existing non-SEC accounting and reporting standards. Once the Codification is in effect all of its contents will carry the same level of authority. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. We will adopt SFAS 168 as of September 30, 2009 and will revise our referencing of GAAP accounting standards in our financial statements to reflect the new Codification.

3. Acquisitions and Dispositions

Acquisitions

Newton County Loan & Savings, FSB ("NCLS")

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

Dispositions

Discontinued U.K. Operations

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

10

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

	As of June 30, 2009	As of December 31, 2008
Assets		
Investments	$ 978	$ 831
Cash and invested cash	149	172
DAC and VOBA	596	534
Accrued investment income	21	18
Reinsurance receivable	64	54
Other assets	44	44
Separate account assets	5,447	4,978
Total assets held-for-sale	$ 7,299	$ 6,631
Liabilities		
Other contract holder funds	$ 305	$ 277
Future contract benefits	918	829
Other liabilities	323	129
Separate account liabilities	5,447	4,978
Total liabilities held-for-sale	$ 6,993	$ 6,213

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Discontinued Operations Before Disposal				
Revenues:				
Insurance premiums	$14	$26	$25	$45
Insurance fees	33	52	57	98
Net investment income	15	20	28	40
Realized loss	-	(8)	(3)	(8)
Other revenue and fees	1	-	-	1
Total revenues	$63	$90	$107	$176
Income from discontinued operations before disposal, before federal income tax expense	$15	$20	$23	$37
Federal income tax expense	5	7	8	13
Income from discontinued operations before disposal	10	13	15	24
Disposal				
Loss on disposal, before federal income taxes	(237)	-	(237)	-

Federal income tax benefit	67	-	67	-
Loss on disposal	(170)	-	(170)	-
Income (loss) from discontinued operations	$(160)	$13	$(155)	$24

11

This transaction is anticipated to close during the fourth quarter of 2009. The completion of the transaction contemplated by the SPA is subject to regulatory approvals, including the approval of the Office of the Superintendent of Financial Institutions of Canada and Financial Services Authority of the United Kingdom, and the satisfaction of other customary conditions, some of which are beyond our control, and no assurance can be given that such completion will occur. The transaction contemplates that we have the opportunity to retain Lincoln UK's pension plan assets and liabilities. If we do not retain the pension plan assets and liabilities, a purchase price adjustment will result. Sun Life has agreed to guarantee all of the obligations of SLF under the SPA and related documents. The estimated loss on disposal reported above is subject to change for foreign currency fluctuations and other adjustments.

Discontinued Media Operations

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

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

	For the Six Months Ended June 30, 2008
Discontinued Operations Before Disposal	
Media revenues, net of agency commissions	$22
Income from discontinued operations before disposal, before federal income taxes	$8
Federal income taxes	3
Income from discontinued operations before disposal	5
Disposal	
Loss on disposal, before federal income taxes	(12)
Federal income tax benefit	(3)
Loss on disposal	(9)
Loss from discontinued operations	$(4)

4. Variable Interest Entities

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

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

	As of June 30, 2009			As of December 31, 2008		
	Total Assets	Total Liabilities	Maximum Loss Exposure	Total Assets	Total Liabilities	Maximum Loss Exposure
Affiliated trust	$5	$-	$-	$5	$-	$-
Credit-linked notes	219	-	600	50	-	600

12

Affiliated Trust

We are the sponsor of an affiliated trust, Lincoln National Capital Trust VI, which was formed solely for the purpose of issuing trust preferred securities and lending the proceeds to us. We own the common securities of this trust, approximately a 3% ownership, and the only assets of the trust are the junior subordinated debentures issued by us. Our common stock investment in this trust was financed by the trust and is reported in other investments on our Consolidated Balance Sheets. Distributions are paid by the trust to the preferred security holders on a quarterly basis and the principal obligations of the trust are irrevocably guaranteed by us. Upon liquidation of the trust, the holders of the preferred securities are entitled to a fixed amount per share plus accumulated and unpaid distributions. We reserve the right to redeem the preferred securities at a fixed price plus accumulated and unpaid distributions and defer the interest payments due on the subordinated debentures for up to 20 consecutive quarters, but not beyond the maturity date of the subordinated debenture.

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

Credit-Linked Notes

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

5. Investments

AFS Securities

Pursuant to SFAS 157, we have categorized the AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 16, which also includes additional disclosures regarding our fair value measurements required by SFAS 157.

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

	As of June 30, 2009				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed Maturity Securities					
Corporate bonds	$43,749	$1,110	$2,650	$54	$42,155
U.S. Government bonds	207	17	3	-	221
Foreign government bonds	487	20	28	-	479
Mortgage-backed securities ("MBS"):					
CMOs	6,453	245	510	179	6,009
Residential mortgage pass-through securities ("MPTS")	1,869	56	30	-	1,895
Commercial MBS ("CMBS")	2,511	16	542	-	1,985
Asset-backed securities ("ABS"):					
CDOs	205	3	91	-	117
CLNs	600	-	381	-	219
State and municipal bonds	922	12	27	-	907
Hybrid and redeemable preferred stocks	1,564	8	509	-	1,063
Total fixed maturity securities	58,567	1,487	4,771	233	55,050
Equity Securities					
Banking securities	274	-	148	-	126
Insurance securities	51	1	15	-	37
Other financial services securities	23	7	9	-	21
Other securities	52	1	1	-	52
Total equity securities	400	9	173	-	236
Total AFS securities	$58,967	$1,496	$4,944	$233	$55,286

(1) This amount is comprised of the gross unrealized OTTI cumulative effect adjustment as discussed in Note 2 and the amount reflected in the Consolidated Statements of Income (Loss) in the first six months of 2009.

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

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

	As of June 30, 2009	
	Amortized	Fair
	Cost	Value
Due in one year or less	$1,730	$1,733
Due after one year through five years	13,570	13,566
Due after five years through ten years	15,703	15,350
Due after ten years	15,926	14,176
Subtotal	46,929	44,825
MBS	10,833	9,890
CDOs	205	116
CLNs	600	219
Total fixed maturity AFS securities	$58,567	$55,050

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

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

	As of June 30, 2009					
	Less Than Or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$6,216	$540	$12,398	$2,164	$18,614	$2,704
U.S. Government bonds	45	3	-	-	45	3
Foreign government bonds	68	4	96	24	164	28
MBS:						
CMOs	333	220	1,017	469	1,350	689
MPTS	306	7	108	23	414	30
CMBS	636	76	1,012	466	1,648	542
ABS:						
CDOs	23	22	76	69	99	91
CLNs	-	-	219	381	219	381
State and municipal bonds	225	14	36	13	261	27
Hybrid and redeemable preferred stocks	253	107	703	402	956	509
Total fixed maturity securities	8,105	993	15,665	4,011	23,770	5,004
Equity Securities						
Banking securities	126	148	-	-	126	148
Insurance securities	34	15	-	-	34	15
Other financial services securities	7	9	-	-	7	9
Other securities	1	1	-	-	1	1
Total equity securities	168	173	-	-	168	173
Total AFS securities	$8,273	$1,166	$15,665	$4,011	$23,938	$5,177
Total number of securities in an unrealized loss position						2,707

	As of December 31, 2008					
	Less Than Or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed Maturity Securities						
Corporate bonds	$18,864	$2,341	$5,893	$2,122	$24,757	$4,463
U.S. Government bonds	3	-	-	-	3	-
Foreign government bonds	147	17	50	32	197	49
MBS:						
CMOs	853	299	720	481	1,573	780
MPTS	96	26	52	12	148	38
CMBS	1,133	175	498	450	1,631	625
ABS:						
CDOs	76	20	68	83	144	103
CLNs	-	-	50	550	50	550
State and municipal bonds	29	2	2	-	31	2
Hybrid and redeemable preferred stocks	461	267	418	340	879	607
Total fixed maturity securities	21,662	3,147	7,751	4,070	29,413	7,217
Equity Securities						
Banking securities	129	146	-	-	129	146
Insurance securities	30	19	-	-	30	19
Other financial services securities	16	8	-	-	16	8
Other securities	22	9	2	1	24	10
Total equity securities	197	182	2	1	199	183
Total AFS securities	$21,859	$3,329	$7,753	$4,071	$29,612	$7,400
Total number of securities in an unrealized loss position						3,563

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

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

Otherwise, if there is a projected principal loss on the security and there has not been a previous impairment or the security was not purchased at a discount greater than the expected principal loss, then impairment is recognized.

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

We perform detailed analysis on the MBS that are most at risk of impairment. Selected information for these securities (in millions) was as follows:

	As of June 30, 2009		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 9,520	$ 8,503	$ 1,017
AFS securities backed by pools of commercial mortgages	2,576	2,021	555
Total	$ 12,096	$ 10,524	$ 1,572
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 3,257	$ 1,954	$ 1,303
AFS securities backed by pools of commercial mortgages	464	274	190
Total	$ 3,721	$ 2,228	$ 1,493

For the six months ended June 30, 2009, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $388 million pre-tax and before associated amortization expense for DAC, VOBA, DSI, and DFEL, of which $229 million was recognized in OCI and $159 million was recognized in net income (loss).

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

	As of June 30, 2009			
	Fair Value	Gross Unrealized Losses	Gross Unrealized OTTI	Number of Securities (1)
Less than six months	$1,044	$492	$84	205
Six months or greater, but less than nine months	1,709	919	9	257
Nine months or greater, but less than twelve months	1,138	720	49	194
Twelve months or greater	1,073	1,403	90	231
Total AFS securities	$4,964	$3,534	$232	887

	As of December 31, 2008			
	Fair Value	Gross Unrealized Losses	Gross Unrealized OTTI	Number of

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

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

As described more fully below, we regularly review our investment holdings for OTTIs. Based upon this review, the cause of the $2.2 billion decrease in our gross AFS securities unrealized losses for the six months ended June 30, 2009, was attributable primarily to increased liquidity in several market segments and improved credit fundamentals, partially offset by the cumulative adjustment of the recognition of OTTI, which resulted in the $165 million increase in amortized cost in AFS securities as discussed in Note 2. We believe that the securities in an unrealized loss position as of June 30, 2009, were not other-than-temporarily impaired as we do not intend to sell these debt securities or it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, and we have the ability and intent to hold the equity securities for a period of time sufficient for recovery.

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

	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009
Balance as of beginning-of-period	$ 103	$ 31
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	23	95
Credit losses on securities for which an OTTI was previously recognized	36	36
Decreases attributable to:		
Amounts recognized in net income (loss)	(30)	(30)
Balance as of end-of-period	$ 132	$ 132

Realized Loss Related to Investments

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Fixed maturity AFS securities:				
Gross gains	$ 33	$ 17	$ 86	$ 25
Gross losses	(172)	(125)	(413)	(220)
Equity AFS securities:				
Gross gains	1	-	4	-
Gross losses	(6)	(6)	(9)	(6)
Gain (loss) on other investments	(58)	3	(60)	28
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	48	23	104	47
Total realized loss on investments, excluding trading securities	(154)	(88)	(288)	(126)
Loss on certain derivative instruments	(4)	(29)	(20)	(32)
Total realized loss on investments and certain				

derivative instruments, excluding trading securities	$(158)	$(117)	$(308)	$(158)

19

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$75	$37	$157	$127
MBS:				
CMOs	61	77	142	77
ABS:				
CDOs	30	-	30	1
Hybrid and redeemable preferred stock	-	-	1	-
Total fixed maturity securities	166	114	330	205
Equity securities:				
Other financial services securities	-	-	3	-
Other securities	6	6	6	6
Total equity securities	6	6	9	6
Gross OTTI recognized in net income (loss)	172	120	339	211
Associated amortization expense of DAC, VOBA, DSI and DFEL	(54)	(20)	(100)	(53)
Net OTTI recognized in net income (loss), pre-tax	$118	$100	$239	$158
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$130	$-	$242	$-
Associated amortization expense of DAC, VOBA, DSI and DFEL	(27)	-	(50)	-
Net portion of OTTI recognized in OCI, pre-tax	$103	$-	$192	$-

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

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

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

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

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

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

Determination of Credit Losses on Corporate Bonds

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

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

Determination of Credit Losses on MBS

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

- Discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover;
- Level of creditworthiness of the home equity loans that back a CMO, residential mortgages that back a MPTS or commercial mortgages that back a CMBS;
- Susceptibility to fair value fluctuations for changes in the interest rate environment;

- Susceptibility to reinvestment risks, in cases where market yields are lower than the securities' book yield earned;
- Susceptibility to reinvestment risks, in cases where market yields are higher than the book yields earned on a security and our expectations of sale of such a security; and
- Susceptibility to variability of prepayments.

Securities Lending and Collateral Held

The carrying values of securities pledged under securities lending agreements were $437 million and $427 million as of June 30, 2009 and December 31, 2008, respectively. The fair values of these securities were $420 million and $410 million as of June 30, 2009 and December 31, 2008, respectively. The carrying value and fair value of the collateral payable held for derivatives is $690 million and $2.8 billion as of June 30, 2009 and December 31, 2008, respectively. The carrying value and fair value of the collateral payable held for the Treasury Asset-Backed Securities Loan Facility (“TALF”) program is $139 million as of June 30, 2009. The carrying value and fair value of the collateral payable held for the Federal Home Loan Bank of Indianapolis (“FHLBI”) is $100 million as of June 30, 2009. As of December 31, 2008, we did not have collateral payable held for the TALF program or FHLBI.

Reverse Repurchase Agreements

The carrying values of securities pledged under reverse repurchase agreements were $346 million and $470 million as of June 30, 2009 and December 31, 2008, respectively. The fair values of these securities were $366 million and $496 million as of June 30, 2009 and December 31, 2008, respectively.

Investment Commitments

As of June 30, 2009, our investment commitments for fixed maturity securities (primarily private placements), limited partnerships, real estate and mortgage loans on real estate were $696 million, which included $381 million of limited partnerships and $214 million of standby commitments to purchase real estate upon completion and leasing.

Credit-Linked Notes

As of June 30, 2009 and December 31, 2008, other contract holder funds on our Consolidated Balance Sheets included $600 million outstanding in funding agreements of The Lincoln National Life Insurance Company (“LNL”). LNL invested the proceeds of $600 million received for issuing two funding agreements in 2006 and 2007 into two separate CLNs originated by third party companies. The CLNs are included in fixed maturity AFS securities on our Consolidated Balance Sheets.

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

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

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

As in the general markets, spreads on these transactions have widened, causing unrealized losses. We had unrealized losses of $381 million on the $600 million in CLNs as of June 30, 2009 and $550 million on the $600 million in CLNs as of December 31, 2008. As described more fully the realized loss related to investments section above, we regularly review our investment holdings for OTTIs. Based upon this review, we believe that these securities were not other-than-temporarily impaired as of June 30, 2009 and December 31, 2008. The following summarizes the fair value to amortized cost ratio (dollars in millions) of the CLNs:

	As of July 31, 2009	As of June 30, 2009	As of December 31, 2008
Fair value to amortized cost ratio	48 %	37 %	8 %

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

	Amount and Date of Issuance	
	$400 December 2006	$200 April 2007
Amortized cost	$ 400	$ 200
Fair value	142	77
Original attachment point (subordination)	5.50 %	2.05 %
Current attachment point (subordination)	4.78 %	1.48 %
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BBB-	Ba3
Current rating of underlying collateral pool	Aa1-B3	Aaa-B3
Number of entities	124	98
Number of countries	19	23

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

Industry	AAA	AA	A	BBB	BB	B	Total
Financial intermediaries	0.3%	3.5%	7.2%	0.5%	0.5%	0.0%	12.0%
Telecommunications	0.0%	0.0%	5.1%	4.9%	1.1%	0.0%	11.1%
Oil & gas	0.0%	1.4%	1.8%	4.4%	0.0%	0.0%	7.6%
Utilities	0.0%	0.0%	2.4%	1.8%	0.0%	0.0%	4.2%
Chemicals & plastics	0.0%	0.0%	2.3%	1.6%	0.0%	0.0%	3.9%
Property & casualty insurance	0.0%	0.0%	2.2%	1.6%	0.0%	0.0%	3.8%
Drugs	0.3%	2.5%	0.9%	0.0%	0.0%	0.0%	3.7%
Retailers (except food & drug)	0.0%	0.0%	0.7%	1.8%	1.1%	0.0%	3.6%
Industrial equipment	0.0%	0.0%	3.0%	0.3%	0.0%	0.0%	3.3%
Sovereign	0.0%	0.3%	1.6%	1.4%	0.0%	0.0%	3.3%
Forest products	0.0%	0.0%	0.0%	1.6%	1.4%	0.0%	3.0%
Other Industry < 3% (28 Industries)	0.9%	2.8%	15.1%	15.7%	5.3%	0.7%	40.5%
Total by industry	1.5%	10.5%	42.3%	35.6%	9.4%	0.7%	100.0%

23

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

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

As of June 30, 2009, we had derivative instruments that were designated and qualifying as cash flow hedges, fair value hedges and the hedge of a net investment in a foreign subsidiary. In addition, we had embedded derivatives that qualified under SFAS 133 and embedded derivatives that did not qualify under SFAS 133. We also had derivative instruments that were economic hedges, but were not designated as hedging instruments under SFAS 133. See Note 1 of our 2008 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

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

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with living benefit guarantees offered in our variable annuity products, including the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit ("GWB") feature, the 4LATER® Advantage GIB feature and the i4LIFE® Advantage GIB feature. See "GLBs Accounted for Under SFAS 157/SFAS 133" below for further details.

See Note 16 for disclosures regarding our fair value measurement required by SFAS 157.

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

			As of June 30, 2009			
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value Gain	Asset Carrying or Fair Value Loss	(Liability) Carrying or Fair Value Gain	(Liability) Carrying or Fair Value Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	102	$731	$32	$(56)	$-	$-
Foreign currency swaps (1)	14	366	37	(10)	-	-
Forward-starting interest rate swaps (1)	1	75	2	-	-	-
Total cash flow hedges	117	1,172	71	(66)	-	-
Fair value hedges:						
Interest rate swap agreements (1)	1	375	80	-	-	-
Equity collars (1)	1	49	141	-	-	-
Total fair value hedges	2	424	221	-	-	-
Net investment in foreign subsidiary:						
Foreign currency forwards (1)	4	256	-	(6)	-	-
Embedded derivatives:						
Deferred compensation plans (4)	7	-	-	-	-	(371)
Remaining guaranteed interest and similar contracts (2)	93,106	-	-	-		(294)
GLBs accounted for under SFAS 157/SFAS 133 (2)	236,497	-	-	-	461	(1,533)
Reinsurance related derivative assets (3)	-	-	46	-	-	-
Total embedded derivatives	329,610	-	46	-	461	(2,198)
Total derivative instruments designated and qualifying as hedging instruments	329,733	1,852	338	(72)	461	(2,198)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	43	2,150	-	-	-	-
Interest rate futures (1)	15,657	4,179	-	-	-	-
Equity futures (1)	48,936	2,247	-	-	-	-
Interest rate swap agreements (1)	102	6,111	187	(391)	-	-
Foreign currency forward contracts (1)	17	1,016	4	(87)	-	-

Credit default swaps (4)	14	212	-	-	-	(74)
Total return swaps (1)	2	142	-	-	-	-
Put options (1)	115	4,112	1,115	-	-	-
Call options (based on LNC stock) (1)	1	9	-	-	-	-
Call options (based on S&P 500) (1)	558	3,115	90	-	-	-
Variance swaps (1)	36	26	94	(17)	-	-
Currency futures (1)	812	110	-	-	-	-
AFS securities embedded derivatives (1)	3	-	18	-	-	-
Total derivative instruments not designated and not qualifying as hedging instruments	66,296	23,429	1,508	(495)	-	(74)
Total derivative instruments	396,029	$25,281	$1,846	$(567)	$461	$(2,272)

25

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

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

	Remaining Life as of June 30, 2009				
	Less Than 1 Year	1 - 5 Years	5 - 10 Years	10 - 30 Years	Total
Derivative Instruments Designated and Qualifying as Hedging Instruments					
Cash flow hedges:					
Interest rate swap agreements	$124	$101	$240	$266	$731
Foreign currency swaps	-	81	180	105	366
Forward-starting interest rate swaps	-	-	75	-	75
Total cash flow hedges	124	182	495	371	1,172
Fair value hedges:					
Interest rate swap agreements	-	-	-	375	375
Equity collars	-	49	-	-	49
Total fair value hedges	-	49	-	375	424
Net investment in foreign subsidiary:					
Foreign currency forwards	256	-	-	-	256
Total derivative instruments designated and qualifying as hedging instruments	380	231	495	746	1,852
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments					
Interest rate cap agreements	1,400	750	-	-	2,150
Interest rate futures	4,179	-	-	-	4,179
Equity futures	2,247	-	-	-	2,247
Interest rate swap agreements	477	1,635	1,494	2,505	6,111
Foreign currency forward contracts	1,016	-	-	-	1,016
Credit default swaps	20	40	152	-	212
Total return swaps	142	-	-	-	142
Put options	112	1,125	2,700	175	4,112
Call options (based on LNC stock)	9	-	-	-	9
Call options (based on S&P 500)	2,378	737	-	-	3,115
Variance swaps	-	3	23		26
Currency futures	110	-	-	-	110
Total derivative instruments not designated and not qualifying as hedging instruments	12,090	4,290	4,369	2,680	23,429
Total derivative instruments with notional amounts	$12,470	$4,521	$4,864	$3,426	$25,281

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

	For the Six Months Ended June 30, 2009
Unrealized Gain on Derivative Instruments	
Balance as of beginning-of-year	$127
Other comprehensive income (loss):	
Unrealized holding losses arising during the period:	
Cash flow hedges:	
Interest rate swap agreements	29
Foreign currency swaps	(37)
Forward-starting interest rate swaps	2
Fair value hedges:	
Interest rate swap agreements	2
Net investment in foreign subsidiary	(80)
Change in DAC, VOBA, DSI and other contract holder funds	20
Income tax benefit	(5)
Less:	
Reclassification adjustment for gains included in net income:	
Cash flow hedges:	
Interest rate swap agreements (1)	3
Foreign currency swaps (1)	1
Fair value hedges:	
Interest rate swap agreements (2)	2
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	-
Income tax expense	(2)
Balance as of end-of-period	$54

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

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

	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009
Derivative Instruments Designated and Qualifying as Hedging Instruments		
Cash flow hedges:		
Interest rate swap agreements (1)	$1	$2
Foreign currency swaps (1)	-	1
Total cash flow hedges	1	3
Fair value hedges:		
Interest rate swap agreements (2)	3	7
Embedded derivatives:		
Deferred compensation plans (4)	(25)	(18)
Remaining guaranteed interest and similar contracts (3)	(11)	11
GLBs accounted for under SFAS 157/SFAS 133 (3)	1,644	1,823
Reinsurance related derivative assets (3)	(61)	15
Total embedded derivatives	1,547	1,831
Total derivative instruments designated and qualifying as hedging instruments	1,551	1,841
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments		
Interest rate cap agreements (3)		
Interest rate futures (3)	(255)	(583)
Equity futures (3)	(563)	(314)
Interest rate swap agreements (3)	(468)	(779)
Foreign currency forward contracts (1)	(88)	(83)
Credit default swaps (1)	1	1
Total return swaps (4)	18	9
Put options (3)	(455)	(410)
Call options (based on S&P 500) (3)	20	2
Variance swaps (3)	(53)	(84)
Currency futures (3)	(1)	(1)
AFS securities embedded derivatives (1)	2	3
Total derivative instruments not designated and not qualifying as hedging instruments	(1,842)	(2,239)
Total derivative instruments	$(291)	$(398)

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

Derivative Instruments Designated and Qualifying as Cash Flow Hedges

There was $1 million in ineffective portions of cash flow hedges recognized through realized loss for both the three and six months ended June 30, 2009.

As of June 30, 2009, $8 million of the deferred net gains on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next twelve months. This reclassification is due primarily to the receipt of interest payments associated with variable rate securities and forecasted purchases, payment of interest on our senior debt, the receipt of interest payments associated with foreign currency securities and the periodic vesting of stock appreciation rights ("SARs").

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

Interest Rate Swap Agreements

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

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

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

Foreign Currency Swaps

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

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

Forward-Starting Interest Rate Swaps

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

As of June 30, 2009, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was March 2018.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

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

Interest Rate Swap Agreements

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

Equity Collars

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

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

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

Embedded Derivative Instruments Designated and Qualifying as Hedging Instruments

Deferred Compensation Plans

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

Remaining Guaranteed Interest and Similar Contracts

We distribute indexed annuity contracts which permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. This feature represents an embedded derivative under SFAS 133. Contract holders may elect to re-balance index options at renewal dates, either annually or biannually. At each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, subject to minimum guarantees. We purchase S&P 500 call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity, both of which are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

GLBs Accounted for Under SFAS 157/SFAS 133

We have certain variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB and 4LATER® features, have elements of both insurance benefits accounted for under Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1") and embedded derivatives accounted for under SFAS 133 and SFAS 157. We weight these features and their associated reserves accordingly based on their hybrid nature. The change in estimated fair value of the embedded derivatives flows through our Consolidated Statements of Income (Loss) as specified in the table above. As of June 30, 2009, we had $18.0 billion of account values that were attributable to variable annuities with a GWB feature and $7.7 billion of account values that were attributable to variable annuities with a GIB feature.

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

Reinsurance Related Derivative Assets (Liabilities)

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

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

We use various other derivative instruments for risk management and income generation purposes that either do not qualify for hedge accounting treatment or have not currently been designated by us for hedge accounting treatment.

Interest Rate Cap Agreements

Interest rate cap agreements entitle us to receive quarterly payments from the counterparties on specified future reset dates, contingent on future interest rates. For each cap, the amount of such quarterly payments, if any, is determined by the excess of a market interest rate over a specified cap rate, multiplied by the notional amount divided by four. The purpose of our interest rate cap agreement program is to provide a level of protection from the effect of rising interest rates for our annuity business, within our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. The interest rate cap agreements provide an economic hedge of the annuity line of business. However, the interest rate cap agreements do not qualify for hedge accounting under SFAS 133.

Interest Rate Futures and Equity Futures

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

Interest Rate Swap Agreements

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

Foreign Currency Forward Contracts

We use foreign currency forward contracts to hedge dividends received from our U.K.-based subsidiary, Lincoln UK. The foreign currency forward contracts obligate us to deliver a specified amount of currency at a future date and a specified exchange rate. The contract does not qualify for hedge accounting under SFAS 133; therefore, all gains or losses on the foreign currency forward contracts are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Credit Default Swaps

We buy credit default swaps to hedge against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows us to put the bond back to the counterparty at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring. Our credit default swaps are not currently qualified for hedge accounting under SFAS 133, as amounts are insignificant.

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

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

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Counterparty		Fair Value (1)	Maximum Potential Payout
3/20/2010	(2)	(4)	A2/A		$-	$10
6/20/2010	(2)	(4)	A1/A		-	10
12/20/2012	(3)	(4)	Aa2/A+		-	10
12/20/2012	(3)	(4)	Aa2/A+		1	10
12/20/2012	(3)	(4)	A1/A		-	10
12/20/2012	(3)	(4)	A1/A		-	10
12/20/2016	(3)	(4)	A2/A	(5)	8	15
12/20/2016	(3)	(4)	A2/A	(5)	9	24
12/20/2016	(3)	(4)	A2/A	(5)	9	24
3/20/2017	(3)	(4)	A2/A	(5)	10	22
3/20/2017	(3)	(4)	A2/A	(5)	11	14
3/20/2017	(3)	(4)	A2/A	(5)	7	18
3/20/2017	(3)	(4)	A2/A	(5)	13	18
3/20/2017	(3)	(4)	A2/A	(5)	6	17
					$74	$212

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

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

Maximum potential payout	$212

Less:	
Collateral posted to date	48
Counterparty thresholds	30
Maximum collateral potentially required to post	$134

Total Return Swaps

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

Put Options

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

Call Options (Based on LNC Stock)

We use call options on our stock to hedge the expected increase in liabilities arising from SARs granted on our stock. Call options hedging vested SARs are not eligible for hedge accounting treatment under SFAS 133. Mark-to-market changes are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Call Options (Based on S&P 500)

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

Variance Swaps

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

Currency Futures

We use currency futures to hedge foreign exchange risk associated with certain options in variable annuity products. Currency futures exchange one currency for another at a specified date in the future at a specified exchange rate. These contracts do not qualify for hedge accounting under SFAS 133; therefore, all cash settlements along with the resulting gains or losses are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

AFS Securities Embedded Derivatives

We own various debt securities that either contain call options to exchange the debt security for other specified securities of the borrower, usually common stock, or contain call options to receive the return on equity-like indexes. These embedded derivatives have not been qualified for hedge accounting treatment under SFAS 133; therefore, the change in fair value of the embedded derivatives flows through our Consolidated Statements of Income (Loss) as specified in the table above.

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of June 30, 2009, the nonperformance risk adjustment was $15 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2009, the exposure was $285 million.

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

Credit Rating of Counterparty	Collateral Posted by Counterparty (Held by LNC)	Collateral Posted by LNC (Held by Counterparty)
AAA	$ 9	$ -
AA	120	-
AA-	209	(6)
A+	259	(8)
A	355	(97)
	$ 952	$ (111)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). Because the pre-tax loss of $42 million resulted in a tax benefit of $41 million for the three months ended June 30, 2009, the effective tax rate was not meaningful. The effective tax rate was 38% for the three months ended June 30, 2008. The effective tax rate on pre-tax income (loss) from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% during the second quarters of 2009 and 2008 were the result of certain tax preferred investment income, separate account dividends-received deduction ("DRD"), foreign tax credits and other tax preference items.

Federal income tax benefit for the second quarter and first six months of 2009 included an increase of $56 million related to favorable adjustments from the 2008 tax return, filed in the first quarter of 2009, primarily relating to the separate account DRD, foreign tax credits and other tax preference items.

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

Our net deferred tax asset position is primarily due to a deferred tax benefit associated with net unrealized capital losses on available for sale securities that have been recognized in OCI for financial statement purposes but are not recognized for tax return purposes. As a result, our analysis of the recoverability of our net deferred tax asset position is focused primarily on this deferred tax benefit. Under current U.S. federal income tax law, capital losses generally must be used against capital gain income within the next five years following the year in which the capital losses are recognized for tax purposes. Capital losses can also be carried back three years to offset capital gains generated in prior tax years. In assessing the need for a valuation allowance related to unrealized capital losses, we consider tax planning strategies that include holding debt securities with market value losses until maturity or recovery, selling appreciated securities to generate capital gains to offset capital losses, and sales of certain corporate assets. Such tax planning strategies are viewed by management as prudent and feasible and will be implemented if necessary to realize the deferred tax asset.

As of June 30, 2009, there have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2008. We anticipate a change to our unrecognized tax benefits within the next 12 months in the range of none to $53 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 United States and the United Kingdom. At any given time, we may be under examination by state, local or non-U.S. income tax authorities.

8. Goodwill

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

	For the Six Months Ended June 30, 2009			
	Balance At Beginning-of-Year	Purchase Accounting Adjustments	Impairment	Balance At End-of-Period
Retirement Solutions:				
Annuities	$1,040	$ -	$(600)	$440
Defined Contribution	20	-	-	20
Insurance Solutions:				
Life Insurance	2,188	-	-	2,188
Group Protection	274	-	-	274
Investment Management	248	-	-	248
Other Operations	174	2	(2)	174
Total goodwill	$3,944	$ 2	$(602)	$3,344

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

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

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

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

9. Guaranteed Benefit Features

We issue variable annuity contracts through our separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). We also issue variable annuity and life contracts through separate accounts that include various types of guaranteed death benefit (“GDB”), 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”).

Certain features of 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 (see Note 16 for details). Other guarantees that are not considered embedded derivatives meet the criteria as insurance benefits and are accounted for under the valuation techniques included in SOP 03-1. Still other guarantees contain characteristics of both an embedded derivative and an insurance benefit and are accounted for under an approach that weights these features and their associated reserves accordingly based on their hybrid nature. 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 benefits (“GLB”), which is reported as a component of realized loss on our Consolidated Statements of Income (Loss).

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

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

	As of June 30, 2009	As of December 31, 2008
Return of Net Deposits		
Total account value	$37,386	$33,907
Net amount at risk (1)	4,689	6,337
Average attained age of contract holders	57 years	56 years
Minimum Return		
Total account value	$195	$191
Net amount at risk (1)	94	109

Average attained age of contract holders	69 years	68 years
Guaranteed minimum return	5 %	5 %
Anniversary Contract Value		
Total account value	$18,203	$16,950
Net amount at risk (1)	6,954	8,402
Average attained age of contract holders	65 years	65 years

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing June 30, 2009, to December 31, 2008, was attributable primarily to the rise in equity markets and associated increase 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 Six Months Ended June 30, 2009	2008
Balance as of beginning-of-year	$277	$38
Change in reserves	24	25
Benefits paid	(119)	(11)
Balance as of end-of-period	$182	$52

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

Asset Type	As of June 30, 2009	As of December 31, 2008
Domestic equity	$ 26,948	$ 24,878
International equity	10,216	9,204
Bonds	7,821	6,701
Money market	5,669	5,802
Total	$ 50,654	$ 46,585
Percent of total variable annuity separate account values	97%	99%

Future contract benefits also include reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 38% of permanent life insurance in force as of June 30, 2009 and approximately 67% and 70% of sales for these products for three and six months ended June 30, 2009.

10. Long-Term Debt

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

	For the Six Months Ended June 30, 2009
Balance as of beginning-of-year	$4,731
Early extinguishment of the following capital securities:	
Portion of 7%, due 2066 (1)	(78)
Portion of 6.05%, due 2067 (2)	(9)
Senior notes issued (3)	495
Maturity of LIBOR + 11 bps notes, due 2009	(500)
Reclassification to short-term debt	250
Change in fair value hedge	(116)
Accretion (amortization) of discounts (premiums), net	2
Balance as of end-of-period	$4,775

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

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

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

11. Contingencies and Commitments

Regulatory and Litigation Matters

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

Transamerica Investment Management, LLC and Transamerica Investments Services, Inc. v. Delaware Management Holdings, Inc. (dba Delaware Investments), Delaware Investment Advisers and certain individuals, was filed in the San Francisco County Superior Court on April 28, 2005. The plaintiffs are seeking substantial compensatory and punitive damages. The complaint alleges breach of fiduciary duty, breach of duty of loyalty, breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition, interference with prospective economic advantage, conversion, unjust enrichment and conspiracy, in connection with Delaware Investment Advisers' hiring of a portfolio management team from the plaintiffs. We and the individual defendants dispute the allegations and are vigorously defending these actions.

Contingencies

Rescission of Indemnity Reinsurance for Disability Income Business

Included in the business sold to Swiss Re through indemnity reinsurance in 2001 was disability income business. In response to the rescission award of a panel of arbitrators on January 24, 2009, of the underlying reinsurance agreement with Swiss Re, we wrote down our reinsurance recoverable and the corresponding funds withheld liability and released the embedded derivative liability related to the funds withheld nature of the reinsurance agreement. The rescission resulted in our being responsible for paying claims on the business and establishing sufficient reserves to support the liabilities. In addition, we would expect to carry out a review of the adequacy of the reserves supporting the liabilities. The rescission did not have a material adverse effect on our results of operations, liquidity or capital resources. We are evaluating our options in light of the ruling by a panel of arbitrators.

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

12. Shares and Stockholders' Equity

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Series A Preferred Stock				
Balance as of beginning-of-period	11,565	11,662	11,565	11,960
Conversion into common stock	(8)	-	(8)	(298)
Balance as of end-of-period	11,557	11,662	11,557	11,662
Common Stock				
Balance as of beginning-of-period	256,046,103	259,206,033	255,869,859	264,233,303
Common stock issued (1)	46,000,000	-	46,000,000	-
Conversion of Series A preferred stock	128	-	128	4,768
Stock compensation/issued for benefit plans	50,610	317,987	246,769	758,723
Retirement of common stock/cancellation of shares	(3,824)	(2,722,398)	(23,739)	(8,195,172)
Balance as of end-of-period	302,093,017	256,801,622	302,093,017	256,801,622
Common stock as of end-of-period:				
Assuming conversion of preferred stock	302,277,929	256,988,214	302,277,929	256,988,214
Diluted basis	304,162,403	257,825,399	304,162,403	257,825,399

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

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

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted net income and income from operations per share was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted-average shares, as used in basic calculation	260,085,214	257,785,473	257,834,591	259,368,519
Shares to cover conversion of preferred stock	184,970	186,592	185,005	187,824
Shares to cover non-vested stock	503,548	273,307	504,397	256,615
Average stock options outstanding during the period	294,415	9,199,383	154,634	9,596,842
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the year)	(223,683)	(8,998,441)	(117,648)	(9,411,397)
Shares repurchaseable from measured but unrecognized stock option expense	(4,433)	(100,707)	(3,450)	(85,157)
Average deferred compensation shares	1,573,741	1,271,413	1,556,369	1,277,542
Weighted-average shares, as used in diluted calculation (1)	262,413,772	259,617,020	260,113,898	261,190,788

(1) As a result of a loss from continuing operations for the three and six months ended June 30, 2009, shares used in the earnings (loss) per share calculation represent basic shares, since using diluted shares would have been anti-dilutive to the calculation.

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

The income used in the calculation of our diluted EPS is our income before cumulative effect of accounting change 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 less than $1 million for the three and six months ended June 30, 2009 and 2008.

OCI

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

	For the Six Months Ended June 30, 2009			For the Six Months Ended June 30, 2008		
	Pre-Tax	Tax	Net	Pre-Tax	Tax	Net
Net unrealized gain (loss) on AFS	$2,005	$(716)	$1,289	$(1,593)	$568	$(1,025)
Unrealized OTTI on AFS	(154)	54	(100)	-	-	-
Net unrealized loss on derivative instruments	(70)	(3)	(73)	(17)	5	(12)
Foreign currency translation adjustment	135	(49)	86	3	(1)	2
Funded status of employee benefit plans	(6)	2	(4)	3	(1)	2
Total OCI	$1,910	$(712)	$1,198	$(1,604)	$571	$(1,033)

13. Realized Loss

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Total realized loss on investments and certain derivative instruments, excluding trading securities (1)	$(158)	$(117)	$(308)	$(158)
Gain (loss) on certain reinsurance derivative/trading securities (2)	(9)	1	12	2
Indexed annuity net derivative results (3):				
Gross gain	9	3	10	11
Associated amortization expense of DAC, VOBA, DSI and DFEL	(6)	(1)	(6)	(6)
Guaranteed living benefits (4):				
Gross gain (loss)	(140)	20	(235)	38
	2	(8)	(18)	(27)

Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL				
Guaranteed death benefits (5):				
Gross gain (loss)	(164)	-	(105)	2
Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL	22	-	14	(1)
Gain on sale of subsidiaries/businesses	3	2	5	4
Total realized loss	$(441)	$(100)	$(631)	$(135)

(1) See "Realized Loss Related to Investments" section in Note 5.
(2) Represents changes in the fair value of total return swaps (embedded derivatives) related to various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements. Changes in the fair value of these derivatives are offset by the change in fair value of trading securities in the portfolios that support these arrangements.
(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under SFAS 133, amended by SFAS 161 and 157. The six months ended June 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 six months ended June 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.

14. Pension and Other Postretirement Benefit Plans

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

	For the Three Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
U.S. Plans				
Service cost	$1	$-	$1	$1
Interest cost	15	15	2	2
Expected return on plan assets	(14)	(20)	(1)	-
Recognized net actuarial (gain) loss	7	-	-	(1)
Net periodic benefit expense (recovery)	$9	$(5)	$2	$2

	For the Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
U.S. Plans				
Service cost	$2	$-	$2	$1
Interest cost	31	30	4	4
Expected return on plan assets	(28)	(39)	(1)	(1)
Recognized net actuarial (gain) loss	14	1	(1)	(1)
Net periodic benefit expense (recovery)	$19	$(8)	$4	$3

15. Stock-Based Incentive Compensation Plans

We sponsor various incentive plans for our employees, agents, 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. DIUS has a separate stock-based incentive compensation plan, which has DIUS stock underlying the awards.

In the second quarter of 2009, a performance period from 2009-2011 was approved for our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consists of LNC restricted stock units representing approximately 27%, LNC stock options representing approximately 40% and performance cash awards representing approximately 33% of the total award. LNC stock options granted for this performance period vest ratably over the three-year period, based solely on a service condition. DIUS restricted stock units granted for this performance period vest ratably over a four-year period, based solely on a service condition and were granted only to employees of DIUS. Under the 2009-2011 plan, a total of 618,312 LNC stock options were granted; 243,313 DIUS restricted stock units were granted; and 477,257 LNC restricted stock units were granted during the six months ended June 30, 2009. See Note 19 for information regarding certain restrictions that have arisen subsequent to June 30, 2009, which may impact our stock-based incentive plans.

In addition to the stock-based grants noted above, various other LNC stock-based awards were granted in the three and six months ended June 30, 2009, which are summarized as follows:

	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009
Awards		
10-year LNC stock options	487,593	487,593
Non-employee director stock options	39,240	84,901
Non-employee agent stock options	130,719	130,719
Restricted stock	477,257	579,053
Performance shares	-	48,840
Stock appreciation rights	117,451	117,451

16. Fair Value of Financial Instruments

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

	As of June 30, 2009		As of December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Available-for-sale securities:				
Fixed maturities	$55,050	$55,050	$48,141	$48,141
Equity	236	236	254	254
Trading securities	2,317	2,317	2,333	2,333
Mortgage loans on real estate	7,468	7,344	7,715	7,424
Derivative instruments	1,234	1,234	3,397	3,397
Other investments	1,187	1,187	1,624	1,624
Cash and invested cash	2,539	2,539	5,754	5,754
Liabilities				
Future contract benefits:				
Remaining guaranteed interest and similar contracts	(294)	(294)	(782)	(782)
Embedded derivative instruments - living benefits	(1,072)	(1,072)	(2,904)	(2,904)
Other contract holder funds:				
Account value of certain investment contracts	(22,887)	(22,023)	(21,974)	(22,372)
Reinsurance related derivative assets	46	46	31	31
Short-term debt (1)	(455)	(449)	(815)	(775)
Long-term debt	(4,775)	(3,939)	(4,731)	(2,909)
Off-Balance-Sheet				
Guarantees	-	-	-	(1)

(1) Difference between the carrying value and fair value of short-term debt as of June 30, 2009 and December 31, 2008, relate to current maturities of long-term debt.

43

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

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

Mortgage Loans on Real Estate

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

Other Investments and Cash and Invested Cash

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

Future Contract Benefits and Other Contract Holder Funds

Future contract benefits and other contract holder funds on our Consolidated Balance Sheets include account values of investment contracts and certain guaranteed interest contracts. The fair value of the investment contracts is based on their approximate surrender value at the balance sheet date. The fair value for the remaining guaranteed interest and similar contracts are estimated using discounted cash flow calculations at the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued.

Short-term and Long-term Debt

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

Guarantees

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

Financial Instruments Carried at Fair Value

Our measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which would include our own credit risk. Our estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability (“exit price”) in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability (“entry price”). Pursuant to SFAS 157, we categorize our financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

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

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

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

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

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the SFAS 157 fair value hierarchy levels described above:

	As of June 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$55	$40,109	$ 1,991	$42,155
U.S. Government bonds	186	32	3	221
Foreign government bonds	-	379	100	479
MBS:				
CMOs	-	5,886	123	6,009
MPTS	-	1,741	154	1,895
CMBS	-	1,755	230	1,985
ABS:				
CDOs	-	7	110	117
CLNs	-	-	219	219
State and municipal bonds	-	-	907	907
Hybrid and redeemable preferred stocks	11	955	97	1,063
Equity AFS securities:				
Banking securities	19	107	-	126
Insurance securities	3	-	34	37
Other financial services securities	-	5	16	21
Other securities	28	1	23	52
Trading securities	3	2,228	86	2,317
Derivative investments	-	(231)	1,465	1,234
Cash and invested cash	-	2,539	-	2,539
Reinsurance related derivative assets	-	46	-	46
Separate account assets	-	61,091	-	61,091
Total assets	$305	$116,650	$ 5,558	$122,513
Liabilities				
Future contract benefits:				
Remaining guaranteed interest and similar contracts	$-	$-	$ (294)	$(294)
GLBs accounted for under SFAS 157/SFAS 133	-	-	(1,072)	(1,072)
Total liabilities	$-	$-	$ (1,366)	$(1,366)

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

	For the Three Months Ended June 30, 2009					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (1)	Ending Fair Value
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$2,101	$(18)	$109	$(48)	$(153)	$1,991
U.S. Government bonds	3	-	-	-	-	3
Foreign government bonds	58	-	(3)	(2)	47	100
MBS:						
CMOs	133	(3)	4	4	(15)	123
MPTS	8	-	1	145	-	154
CMBS	246	1	13	(30)	-	230
ABS:						
CDOs	113	(32)	46	(17)	-	110
CLNs	82	-	137	-	-	219
State and municipal bonds	126	-	(1)	765	17	907
Hybrid and redeemable preferred stocks	88	-	6	-	3	97
Equity AFS securities:						
Insurance securities	46	1	8	(21)	-	34
Other financial services securities	12	-	4	-	-	16
Other securities	23	-	-	-	-	23
Trading securities	78	3	-	7	(2)	86
Derivative investments	2,145	(510)	(9)	(161)	-	1,465
Future contract benefits:						
Remaining guaranteed interest and similar contracts	(253)	(11)	-	(30)	-	(294)
GLBs accounted for under SFAS 157/SFAS 133	(2,605)	1,578	-	(45)	-	(1,072)
Total, net	$2,404	$1,009	$315			