LINCOLN NATIONAL CORP
Form 10-Q
May 08, 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 March 31, 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 ¨ 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 May 4, 2009, there were 256,087,959 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 March 31, 2009 (Unaudited)	As of December 31, 2008
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2009 - $55,876; 2008 - $55,194)	$49,349	$48,935
Equity (cost: 2009 - $464; 2008 - $466)	205	288
Trading securities	2,246	2,333
Mortgage loans on real estate	7,616	7,715
Real estate	129	125
Policy loans	2,908	2,924
Derivative investments	2,226	3,397
Other investments	1,476	1,624
Total investments	66,155	67,341
Cash and invested cash	5,613	5,926
Deferred acquisition costs and value of business acquired	11,922	11,936
Premiums and fees receivable	489	481
Accrued investment income	881	832
Reinsurance recoverables	8,033	8,450
Reinsurance related derivative assets	107	31
Goodwill	3,344	3,944
Other assets	3,396	3,562
Separate account assets	57,487	60,633
Total assets	$157,427	$163,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$18,836	$19,260
Other contract holder funds	61,525	60,847
Short-term debt	1,436	815
Long-term debt	4,345	4,731
Funds withheld reinsurance liabilities	1,215	2,042
Deferred gain on business sold through reinsurance	548	619
Payables for collateral under securities loaned and derivatives	2,386	3,706
Other liabilities	2,326	2,506
Separate account liabilities	57,487	60,633
Total liabilities	150,104	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; 256,046,103 and 255,869,859 shares		
issued and outstanding as of March 31, 2009, and December 31, 2008, respectively	7,033	7,035
Retained earnings	3,265	3,745
Accumulated other comprehensive loss	(2,975)	(2,803)
Total stockholders' equity	7,323	7,977
Total liabilities and stockholders' equity	$ 157,427	$ 163,136

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2009	2008
	(Unaudited)	
Revenues		
Insurance premiums	$518	$509
Insurance fees	728	814
Investment advisory fees	44	76
Net investment income	1,027	1,065
Realized loss:		
Total other-than-temporary impairment losses on securities	(214)	(57)
Portion of loss recognized in other comprehensive income	89	-
Net other-than-temporary impairment losses on securities recognized in earnings	(125)	(57)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(68)	22
Total realized loss	(193)	(35)
Amortization of deferred gain on business sold through reinsurance	19	19
Other revenues and fees	102	146
Total revenues	2,245	2,594
Benefits and Expenses		
Interest credited	627	612
Benefits	939	679
Underwriting, acquisition, insurance and other expenses	725	809
Interest and debt expense	-	76
Impairment of intangibles	603	-
Total benefits and expenses	2,894	2,176
Income (loss) from continuing operations before taxes	(649)	418
Federal income tax expense (benefit)	(70)	125
Income (loss) from continuing operations	(579)	293
Loss from discontinued operations, net of federal incomes taxes	-	(4)
Net income (loss)	$(579)	$289
Earnings Per Common Share - Basic		
Income (loss) from continuing operations	$(2.27)	$1.13
Loss from discontinued operations	-	(0.02)
Net income (loss)	$(2.27)	$1.11
Earnings Per Common Share - Diluted		
Income (loss) from continuing operations	$(2.27)	$1.12
Loss from discontinued operations	-	(0.02)
Net income (loss)	$(2.27)	$1.10

See accompanying Notes to Consolidated Financial Statements

3

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

	For the Three Months Ended March 31, 2009	2008
	(Unaudited)	
Common Stock		
Balance at beginning-of-year	$7,035	$7,200
Stock compensation/issued for benefit plans	(5)	21
Deferred compensation payable in stock	3	3
Retirement of common stock/cancellation of shares	-	(149)
Balance at end-of-period	7,033	7,075
Retained Earnings		
Balance at 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 loss	(649)	(258)
Less other comprehensive loss, net of tax	(70)	(547)
Net income (loss)	(579)	289
Retirement of common stock	-	(137)
Dividends declared: Common (2009 - $0.010; 2008 - $0.415)	(3)	(108)
Balance at end-of-period	3,265	4,333
Net Unrealized Loss on Available-for-Sale Securities		
Balance at beginning-of-year	(2,654)	86
Cumulative effect of adoption of FSP 115-2	(84)	
Change during the period	39	(538)
Balance at end-of-period	(2,699)	(452)
Unrealized Other-Than-Temporary Impairment on Available-for-Sale Securities		
Balance at beginning-of-year	-	-
Cumulative effect of adoption of FSP 115-2	(18)	-
Change during the period	(58)	-
Balance at end-of-period	(76)	-
Net Unrealized Gain on Derivative Instruments		
Balance at beginning-of-year	127	53
Change during the period	(69)	(9)
Balance at end-of-period	58	44
Foreign Currency Translation Adjustment		
Balance at beginning-of-year	6	175
Change during the period	17	(1)
Balance at end-of-period	23	174
Funded Status of Employee Benefit Plans		
Balance at beginning-of-year	(282)	(89)
Change during the period	1	1
Balance at end-of-period	(281)	(88)
Total stockholders' equity at end-of-period	$7,323	$11,086

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Cash Flows from Operating Activities	(Unaudited)	
Net income (loss)	$(579)	$289
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front end loads deferrals and interest, net of amortization	(100)	(169)
Trading securities purchases, sales and maturities, net	37	12
Change in premiums and fees receivable	37	(34)
Change in accrued investment income	(49)	(74)
Change in future contract benefits	(233)	299
Change in other contract holder funds	(2)	24
Change in funds withheld reinsurance liability and reinsurance recoverables	(170)	(170)
Change in federal income tax accruals	36	(74)
Realized loss	193	35
Loss on disposal of discontinued operations	-	12
Impairment of intangibles	603	-
Amortization of deferred gain on business sold through reinsurance	(19)	(19)
Stock-based compensation expense	6	12
Other	(39)	(45)
Net cash provided by (used in) operating activities	(279)	98
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(2,719)	(1,599)
Sales of available-for-sale securities	1,242	300
Maturities of available-for-sale securities	731	888
Purchases of other investments	(1,201)	(713)
Sales or maturities of other investments	2,411	596
Increase (decrease) in payables for collateral under securities loaned and derivatives	(1,320)	661
Proceeds from sale of subsidiaries/businesses and disposal of discontinued operations	2	642
Other	(16)	(13)
Net cash provided by (used in) investing activities	(870)	762
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(87)	(100)
Increase (decrease) in commercial paper, net	371	(54)
Deposits of fixed account values, including the fixed portion of variable	2,612	2,403
Withdrawals of fixed account values, including the fixed portion of variable	(1,590)	(1,434)
Transfers to and from separate accounts, net	(408)	(509)
Common stock issued for benefit plans and excess tax benefits	(8)	12
Repurchase of common stock	-	(286)
Dividends paid to stockholders	(54)	(110)
Net cash provided by (used in) financing activities	836	(78)

Net increase (decrease) in cash and invested cash	(313)	782
Cash and invested cash at beginning-of-year	5,926	1,665
Cash and invested cash at end-of-period	$5,613	$2,447

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance and investment management businesses through six business segments, see Note 16. 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 three month period ended March 31, 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.

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

We have reclassified the results of certain derivatives and embedded derivatives to realized loss, which were previously reported within insurance fees, net investment income, interest credited or benefits. The associated amortization expense of deferred acquisition costs ("DAC") and value of business acquired ("VOBA") (previously reported within underwriting, acquisition, insurance and other expenses), deferred sales inducements ("DSI") (previously reported within interest credited), deferred front-end loads ("DFEL") (previously reported within insurance fees) and changes in contract holder funds (previously reported within benefits) have also been reclassified to realized loss. The detail of the reclassifications from what was previously reported in March 31, 2008, financial statements (in millions) was as follows:

	For the Three Months Ended March 31, 2008

Realized loss, as previously reported	$(38)
Effect of reclassifications to:	
Insurance fees	32
Net investment income	(97)
Interest credited	102
Benefits	(13)
Underwriting, acquisition, insurance and other expenses	(21)
Realized loss, as adjusted	$(35)

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, primarily 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 ("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 for the first quarter adoption of FSP 115-2 to basic and diluted per share amounts was an increase of $0.35 per share.

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. 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.

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.

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. The disclosures in FSP 107-1 are effective for interim reporting periods ending after June 15, 2009, and are not required for earlier periods that are presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 107-1 requires comparative disclosures only for periods ending after initial adoption. We will include the disclosures required in FSP 107-1 in the notes to our consolidated financial statements beginning with the interim period ending June 30, 2009.

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 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, and the amounts (in millions) were as follows:

	For the Three Months Ended March 31, 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 that held a variable interest was as follows:

	As of March 31, 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	82	-	600	50	-	600

Affiliated Trust

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

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

Credit-Linked Notes

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

5. Investments

AFS Securities

Pursuant to SFAS 157, we have categorized these 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 15, 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 March 31, 2009				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed Maturity Securities					
Corporate bonds	$41,533	$553	$4,547	$34	$37,505
U.S. Government bonds	205	29	1	-	233
Foreign government bonds	779	40	54	-	765
Mortgage-backed securities ("MBS"):					
CMOs	6,684	281	666	109	6,190
Residential mortgage pass-through securities ("MPTS")	1,616	73	32	-	1,657
Commercial MBS ("CMBS")	2,517	11	621	-	1,907
Asset-backed securities ("ABS"):					
CDOs	253	4	135	3	119
Credit-linked notes ("CLNs")	600	-	518	-	82
State and municipal bonds	125	3	2	-	126
Hybrid and redeemable preferred stocks	1,564	3	802	-	765
Total fixed maturity securities	55,876	997	7,378	146	49,349
Equity Securities					
Banking securities	280	-	213	-	67
Insurance securities	71	1	24	-	48
Other financial services securities	55	1	12	-	44
Other securities	58	2	14	-	46
Total equity securities	464	4	263	-	205

Total AFS securities	$56,340	$1,001	$7,641	$146	$49,554

(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 in the first three months of 2009.

	As of December 31, 2008				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$40,363	$660	$4,521	$-	$36,502
U.S. Government bonds	204	42	-	-	246
Foreign government bonds	755	56	51	-	760
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	55,194	1,018	7,277	-	48,935
Equity Securities					
Banking securities	280	-	147	-	133
Insurance securities	71	1	19	-	53
Other financial services securities	61	4	10	-	55
Other securities	54	4	11	-	47
Total equity securities	466	9	187	-	288
Total AFS securities	$55,660	$1,027	$7,464	$-	$49,223
					c

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

	As of March 31, 2009	
	Amortized	Fair
	Cost	Value
Due in one year or less	$1,817	$1,793
Due after one year through five years	13,230	12,656
Due after five years through ten years	14,383	13,122
Due after ten years	14,776	11,823
Subtotal	44,206	39,394
MBS	10,817	9,754
CDOs	253	119
CLNs	600	82
Total fixed maturity AFS securities	$55,876	$49,349

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 March 31, 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	$16,651	$2,011	$7,320	$2,570	$23,971	$4,581
U.S. Government bonds	16	1	-	-	16	1
Foreign government bonds	202	19	65	35	267	54
MBS:						
CMOs	676	397	645	378	1,321	775
MPTS	40	11	75	21	115	32
CMBS	692	121	877	500	1,569	621
ABS:						
CDOs	52	30	54	108	106	138
CLNs	-	-	82	518	82	518
State and municipal bonds	30	2	2	-	32	2
Hybrid and redeemable preferred stocks	385	357	328	445	713	802
Total fixed maturity securities	18,744	2,949	9,448	4,575	28,192	7,524
Equity Securities						
Banking securities	65	209	2	4	67	213
Insurance securities	27	24	-	-	27	24
Other financial services securities	12	8	19	4	31	12
Other securities	1	3	22	11	23	14
Total equity securities	105	244	43	19	148	263
Total AFS securities	$18,849	$3,193	$9,491	$4,594	$28,340	$7,787
Total number of securities in an unrealized loss position						3,467

	As of December 31, 2008					
	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	$19,047	$2,378	$5,980	$2,143	$25,027	$4,521
U.S. Government bonds	3	-	-	-	3	-
Foreign government bonds	159	17	64	34	223	51
MBS:						
CMOs	853	299	720	481	1,573	780
MPTS	96	26	52	12	148	38
CMBS	1,133	175	499	450	1,632	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	21,857	3,184	7,853	4,093	29,710	7,277
Equity Securities						
Banking securities	131	146	2	1	133	147
Insurance securities	30	19	-	-	30	19
Other financial services securities	32	9	5	1	37	10
Other securities	22	10	2	1	24	11
Total equity securities	215	184	9	3	224	187
Total AFS securities	$22,072	$3,368	$7,862	$4,096	$29,934	$7,464
Total number of securities in an unrealized loss position						3,682

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 March 31, 2009			
	Fair	Gross Unrealized		Number of
	Value	Losses	OTTI	Securities
Less than six months	$5,306	$2,818	$144	840
Six months or greater, but less than nine months	1,370	1,095	-	253
Nine months or greater, but less than twelve months	628	856	-	148
Twelve months or greater	344	1,147	-	145
Total AFS securities	$7,648	$5,916	$144	1,386

	As of December 31, 2008			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$6,794	$3,536	$-	1,017
Six months or greater, but less than nine months	500	506	-	104
Nine months or greater, but less than twelve months	491	651	-	152
Twelve months or greater	173	869	-	91
Total AFS securities	$7,958	$5,562	$-	1,364

(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 $177 million increase in our gross AFS securities unrealized losses for the three months ended March 31, 2009, was related primarily to the cumulative adjustment of the recognition of OTTI. See the $165 million increase in amortized cost in AFS securities as disclosed in Note 2. We believe that the securities in an unrealized loss position as of March 31, 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 earnings where the portion related to other factors was recognized in OCI (in millions) were as follows:

	For the Three Months Ended March 31, 2009
Balance at beginning-of-period	$31
Increases attributable to credit losses on securities for which an OTTI was not previously recognized	72
Balance at end-of-period	$103

16

Realized Loss Related to Investments

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

	For the Three Months Ended March 31, 2009	2008	Change
Fixed maturity AFS securities:			
Gross gains	$55	$9	NM
Gross losses	(244)	(100)	NM
Equity AFS securities:			
Gross gains	3	3	0 %
Gross losses	(3)	-	NM
Gain on other investments	(2)	25	NM
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	55	25	120 %
Total realized loss on investments, excluding trading securities	(136)	(38)	NM
Loss on certain derivative instruments	(17)	(3)	NM
Total realized loss on investments and certain derivative instruments, excluding trading securities	$(153)	$(41)	NM
Write-downs for OTTI included in realized loss on AFS securities above	$(170)	$(92)	-85 %

Details underlying write-downs taken as a result of OTTIs (in millions) that were recognized in earnings and included in realized loss on AFS securities above were as follows:

	For the Three Months Ended March 31, 2009	2008
Fixed Maturity Securities		
Corporate bonds	$85	$90
MBS:		
CMOs	81	1
ABS:		
CDOs	-	1
Hybrid and redeemable preferred stock	1	-
Total fixed maturity securities	167	92
Equity Securities		
Other financial services securities	3	-
Total equity securities	3	-
Total OTTI losses on AFS	$170	$92

17

The components of OTTI (in millions) reflected on our Consolidated Statements of Income were as follows:

	For the Three Months Ended March 31, 2009			For the Three Months Ended March 31, 2008		
	Total OTTI Losses on Securities	Portion of Loss Recognized in OCI	Net OTTI Losses Recognized in Earnings	Total OTTI Losses on Securities	Portion of Loss Recognized in OCI	Net OTTI Losses Recognized in Earnings
Gross	$282	$(112)	$170	$92	$-	$92
DAC, VOBA, DSI and DFEL amortization	(68)	23	(45)	(35)	-	(35)
Net	$214	$(89)	$125	$57	$-	$57

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 change to realized gain (loss) on our Consolidated Statements of Income. 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 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 than 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. 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, as this is also deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded to OCI to unrealized OTTI loss 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. If an OTTI exists and we do not have sufficient cash flow or other information to determine a recovery value for the security, we conclude that the entire OTTI is credit-related and the amortized cost for the security is written down to current fair value with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income. 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 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

The carrying values of securities pledged under securities lending agreements were $311 million and $427 million as of March 31, 2009 and December 31, 2008, respectively. The fair values of these securities were $300 million and $410 million as of March 31, 2009 and December 31, 2008, respectively. The carrying value and fair value of the collateral payable held for derivatives is $1.6 billion and $2.8 billion as of March 31, 2009 and December 31, 2008, respectively.

Reverse Repurchase Agreements

The carrying values of securities pledged under reverse repurchase agreements were $460 million and $470 million as of March 31, 2009 and December 31, 2008, respectively. The fair values of these securities were $485 million and $496 million as of March 31, 2009 and December 31, 2008, respectively.

Investment Commitments

As of March 31, 2009, our investment commitments for fixed maturity securities (primarily private placements), limited partnerships, real estate and mortgage loans on real estate were $782 million, which included $411 million of limited partnerships and $263 million of standby commitments to purchase real estate upon completion and leasing.

Credit-Linked Notes

As of March 31, 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"), respectively. 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 is a 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. Each tranche represents a 1% slice of the capital structure and each issuer is equally weighted in the underlying collateral pool.

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. We do not anticipate any future payments under the CLNs, and as such, there are no recourse provisions or assets held as collateral for the recovery of any future payments. Similar to other debt market instruments, our maximum principal loss is limited to our original investment of $600 million as of March 31, 2009.

As in the general markets, spreads on these transactions have widened, causing unrealized losses. We had unrealized losses of $518 million on the $600 million in CLNs as of March 31, 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 March 31, 2009 and December 31, 2008. The following summarizes the fair value to amortized cost ratio (dollars in millions) of the CLNs:

	As of April 30, 2009		As of March 31, 2009		As of December 31, 2008	
Fair value to amortized cost ratio	22	%	14	%	8	%

The following summarizes information regarding our investments in these securities (dollars in millions) as of March 31, 2009:

	Amount and Date of Issuance	
	$400	$200
	December 2006	April 2007

Amortized cost	$400	$200
Fair value	52	30
Original attachment point (subordination)	5.50 %	2.05 %
Current attachment point (subordination)	4.77 %	1.48 %
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BBB-	Ba3
Current rating of underlying collateral pool	Aaa-B3	Aaa-B1
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 March 31, 2009:

Industry	AAA	AA	A	BBB	BB	CCC	Total
Financial intermediaries	0 %	3 %	8 %	1 %	0 %	0 %	12 %
Telecommunications	0 %	0 %					