LINCOLN NATIONAL CORP
Form 10-Q
November 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______.

Commission File Number 1-6028

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(484) 583-1400

(Registrant s telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ¨ Smaller reporting company ¨

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

As of November 3, 2008, there were 255,881,396 shares of the registrant s common stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. **Financial Statements**

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of September 30, 2008 (Unaudited)	As of December 31, 2007
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2008 $56,211; 2007 $56,069)	$ 51,931	$ 56,276
Equity (cost: 2008 $612; 2007 $548)	493	518
Trading securities	2,393	2,730
Mortgage loans on real estate	7,688	7,423
Real estate	127	258
Policy loans	2,870	2,885
Derivative investments	1,262	807
Other investments	1,193	1,075
Total investments	67,957	71,972
Cash and invested cash	2,160	1,665
Deferred acquisition costs and value of business acquired	11,652	9,580
Premiums and fees receivable	463	401
Accrued investment income	921	843
Reinsurance recoverables	8,222	8,187
Goodwill	4,041	4,144
Other assets	2,884	3,530
Separate account assets	74,971	91,113
Total assets	$ 173,271	$ 191,435
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Future contract benefits	$ 16,281	$ 16,007
Other contract holder funds	60,678	59,640
Short-term debt	635	550
Long-term debt	4,569	4,618
Reinsurance related derivative liability	(9)	220
Funds withheld reinsurance liabilities	2,062	2,117
Deferred gain on indemnity reinsurance	639	696
Payables for collateral under securities loaned and derivatives	1,668	1,135
Other liabilities	2,277	3,621
Separate account liabilities	74,971	91,113
Total liabilities	163,771	179,717
Contingencies and Commitments (See Note 10)		

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

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

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

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in millions, except per share data)

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

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

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

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

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

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles (GAAP) for interim financial information and with the instructions for the Securities and Exchange Commission (SEC) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K), should be read in connection with the reading of these interim unaudited consolidated financial statements.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company s results. Operating results for the three and nine month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. All material intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

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

Realized loss, as adjusted	$	(65)	$	(24)

2. New Accounting Standards

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 157 Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement and enhances disclosures about fair value instruments. SFAS 157 retains the exchange price notion, but clarifies that exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability (exit price) in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability (entry price). Fair value measurement is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which would include the reporting entity s own credit risk. SFAS 157 establishes a three-level fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The three-level hierarchy for fair value measurement is defined as follows:

Level 1 inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. Blockage discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market are prohibited;

Level 2 inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk.

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

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

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

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

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

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

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, we did not apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities within the scope of FSP 157-2. Examples of items to which the deferral is applicable include, but are not limited to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future Adoption of New Accounting Standards

SFAS No. 141(R) Business Combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Dispositions

Discontinued Media Operations

During the fourth quarter of 2007, we entered into definitive agreements to sell our television broadcasting, Charlotte radio and sports programming businesses. These businesses were acquired as part of the Jefferson-Pilot merger on April 3, 2006. The sports programming sale closed on November 30, 2007, the Charlotte radio broadcasting sale closed on January 31, 2008, and the television broadcasting sale closed on March 31, 2008. Accordingly, in the periods prior to the closings, the assets and liabilities of these businesses were reclassified as held-for-sale and were reported within other assets and other liabilities on our Consolidated Balance Sheets. The major classes of assets and liabilities held-for-sale (in millions) were as follows:

	As of September 30, 2008	As of December 31, 2007
Goodwill	$	$ 340
Specifically identifiable intangible assets		266
Other		146
Total assets held-for-sale	$	$ 752
Liabilities held-for-sale	$	$ 354

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

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

Fixed Income Investment Management Business

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

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

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

4. Investments

Available-for-Sale Securities

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

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

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

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

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

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

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

The fair value and gross unrealized losses of available-for-sale securities (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	As of September 30, 2008					
	Less Than Or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	$ 22,046	$ 1,943	$ 6,384	$ 1,923	$ 28,430	$ 3,866
U.S. Government bonds	12				12	
Foreign government bonds	236	11	95	17	331	28
Mortgage-backed securities:						
Mortgage pass-through securities	521	16	62	11	583	27
Collateralized mortgage obligations	2,425	231	930	387	3,355	618
Commercial mortgage-backed securities	1,222	81	652	198	1,874	279
State and municipal bonds	43	2	4		47	2
Redeemable preferred stocks	78	16			78	16
Total fixed maturity securities	26,583	2,300	8,127	2,536	34,710	4,836
Equity securities	420	126	12	2	432	128
Total available-for-sale securities	$ 27,003	$ 2,426	$ 8,139	$ 2,538	$ 35,142	$ 4,964
Total number of securities in an unrealized loss position						3,911

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

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

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

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

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

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

Trading Securities

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

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

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

Mortgage Loans on Real Estate

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

Net Investment Income

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

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

Realized Loss Related to Investments

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

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

See Note 12 for a comprehensive listing of realized loss.

Securities Lending

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

Reverse Repurchase Agreements

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

Investment Commitments

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

Concentrations of Financial Instruments

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

Credit-Linked Notes

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

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

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

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

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

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

[1] As of September 30, 2008

5. DAC, VOBA, DSI and DFEL

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

Changes in DAC (in millions) were as follows:

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

Changes in VOBA (in millions) were as follows:

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

Changes in DSI (in millions) were as follows:

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

Changes in DFEL (in millions) were as follows:

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

6. Goodwill and Specifically Identifiable Intangibles

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

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

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

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

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

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

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

(2) We recorded FCC licenses impairment of $90 million during the second quarter of 2008, as discussed above.

See Note 3 for goodwill and specifically identifiable intangibles included within discontinued operations.

7. Guaranteed Benefit Features

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

These guarantees are considered embedded derivatives and are recorded in future contract benefits on our Consolidated Balance Sheets at fair value under SFAS 133 and SFAS 157. Effective January 1, 2008, we adopted SFAS 157, which affected the valuation of our embedded derivatives. See Note 2 of this report for details on the adoption of SFAS 157. We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for living benefits in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in fair value of the embedded derivatives. The net impact of these changes is reported as guaranteed living benefit (GLB), which is a component of realized loss discussed in Note 12.

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

	As of September 30, 2008	As of December 31, 2007
Return of Net Deposits		
Variable annuity account value	$ 39,646	$ 44,833
Net amount at risk [(1)]	2,503	93
Average attained age of contract holders	56 years	55 years
Minimum Return		
Variable annuity account value	$ 256	$ 355
Net amount at risk [(1)]	72	25
Average attained age of contract holders	68 years	68 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Variable annuity account value	$ 20,794	$ 25,537
Net amount at risk [(1)]	4,821	359
Average attained age of contract holders	65 years	64 years

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

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

	For the Nine Months Ended September 30,	
	2008	2007
Balance at beginning-of-year	$ 38	$ 23
Cumulative effect of adoption of SOP 05-1		(4)
Changes in reserves	87	17
Benefits paid	(22)	(4)
Balance at end-of-period	$ 103	$ 32

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

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

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

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

8. Other Contract Holder Funds

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

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

9. Federal Income Taxes

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

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

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

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

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

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

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

10. Contingencies and Commitments

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

Regulatory and Litigation Matters

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

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

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

11. Stockholders Equity and Shares

Stockholders Equity

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Series A Preferred Stock				
Balance at beginning-of-period	11,662	12,361	11,960	12,706
Conversion into common stock	(100)	(155)	(398)	(500)
Balance at end-of-period	11,562	12,206	11,562	12,206
Common Stock				
Balance at beginning-of-period	256,801,622	271,441,613	264,233,303	275,752,668
Conversion of Series A preferred stock	1,600	2,480	6,368	8,000
Stock compensation [1]	96,454	774,931	775,676	3,610,276
Deferred compensation payable in stock	18,465	35,149	85,544	104,310
Retirement of common stock by repurchase/cancellation of shares	(1,076,508)	(3,096,069)	(9,259,258)	(10,317,150)
Balance at end-of-period	255,841,633	269,158,104	255,841,633	269,158,104

Common stock at end-of-period:

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

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

Earnings Per Share

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

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

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

12. Realized Loss

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

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

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

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

(3) Represents the net difference between the change in the fair value of the Standard & Poor s (S&P) 500 Index® call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under SFAS 133 and 157. The nine months ended September 30, 2008, includes a $10 million gain from the initial impact of adopting SFAS 157.

(4) Represents the net difference in the change in fair value of the embedded derivative liabilities of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments. The nine months ended September 30, 2008, includes a $34 million loss from the initial impact of adopting SFAS 157.

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

13. Underwriting, Acquisition, Insurance and Other Expenses

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

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

14. Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

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

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

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

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

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

15. Stock-Based Incentive Compensation Plans

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

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

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

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

16. Financial Instruments Carried at Fair Value

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

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

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

Our investment securities are valued using market inputs, including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with senior business leaders and brokers as well as observations of general market movements for those asset classes.

The following tables summarize changes to our financial instruments carried at fair value (in millions) and classified within level 3 of the fair value hierarchy. This summary excludes any impact of amortization on DAC, VOBA, DSI and DFEL. When a determination is made to classify an asset or liability within level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Certain securities trade in less liquid or illiquid markets with limited or no pricing information, and the determination of fair value for these securities is inherently more difficult. However, level 3 fair value investments may include, in addition to the unobservable or level 3 inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the table below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	For the Three Months Ended September 30, 2008					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [1]	Ending Fair Value
Investments:						
Available-for-sale securities:						
Fixed maturities	$ 4,231	$ (25)	$ (206)	$ (90)	$ (94)	$ 3,816
Equity	146	(23)	(38)	19		104
Trading securities	101	(2)		(5)	3	97
Derivative instruments	866	127	6	102		1,101
Future Contract Benefits:						
Remaining guaranteed interest and similar contracts	(298)	23		10		(265)
Embedded derivative instruments living benefits liabilities	(335)	(190)		(39)		(564)
Total, net	$ 4,711	$ (90)	$ (238)	$ (3)	$ (91)	$ 4,289

	For the Nine Months Ended September 30, 2008					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [1]	Ending Fair Value
Investments:						
Available-for-sale securities:						
Fixed maturities	$ 4,420	$ (44)	$ (646)	$ (55)	$ 141	$ 3,816
Equity	54	(30)	(6)	86		104
Trading securities	112	(11)		(12)	8	97
Derivative instruments	767	118	13	203		1,101
Future Contract Benefits:						
Remaining guaranteed interest and similar contracts	(389)	34		90		(265)
Embedded derivative instruments living benefits liabilities	(279)	(177)		(108)		(564)
Total, net	$ 4,685	$ (110)	$ (639)	$ 204	$ 149	$ 4,289

(1)

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

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

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

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

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

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

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

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

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

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

17. Segment Information

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

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

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

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

Insurance Solutions	Life Insurance (including Executive Benefits business) Group Protection
Investment Management	Investment Management
Lincoln UK	Lincoln UK

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Other Operations also includes our run-off Institutional Pension business, which was previously reported in Employer Markets Retirement Products and the results of our remaining media businesses.

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

We continue to exclude the effects of any realized gain (loss) on investments from segment operating revenues and income from operations as we believe that such items are not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments.

We believe that our new definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

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

- Realized gains and losses associated with the following (excluded realized gain (loss)):
  - Sale or disposal of securities;
  - Impairments of securities;
  - Change in the fair value of embedded derivatives within certain reinsurance arrangements and the change in the fair value of related trading securities;
  - Change in the fair value of the embedded derivatives of our GLBs within our variable annuities net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative;
  - Net difference between the benefit ratio unlocking of SOP No. 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts reserves on our GDB riders within our variable annuities and the change in the fair value of the derivatives excluding our expected cost of purchasing the hedging instruments; and
  - Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under SFAS 133 and 157.
- Income (loss) from the initial adoption of changes in accounting principles;

- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Losses on early retirement of debt, including subordinated debt;
- Losses from the impairment of intangible assets; and
- Income (loss) from discontinued operations.

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

- Excluded realized gain (loss);
- Amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and
- Revenue adjustments from the initial impact of the adoption of changes in accounting principles.

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

Segment information (in millions) was as follows:

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

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

[2] Revenues from our Lincoln UK segment represent our revenues from a foreign country.

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

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

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

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

Sale of subsidiaries/businesses:				
Proceeds from sale of subsidiaries/businesses, reported as gain on sale of subsidiaries/businesses	$	6	$	

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

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

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

The following Management s Discussion and Analysis (MD&A) is intended to help the reader understand the financial condition of Lincoln National Corporation and its consolidated subsidiaries (LNC, Lincoln or the Company, which also may be referred to as we, our or us) as September 30, 2008, compared with December 31, 2007, and the results of operations of LNC for the three and nine months ended September 30, 2008, as compared with the corresponding periods in 2007. The MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements (Notes) presented in Item 1. Financial Statements and our Form 10-K for the year ended December 31, 2007 (2007 Form 10-K), including the sections entitled Part I Item 1A. Risk Factors, Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II Item 8. Financial Statements and Supplementary Data , as well as Part II Item 1A. Risk Factors below.

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

- Realized gains and losses associated with the following (excluded realized gain (loss)):
  - Sale or disposal of securities;
  - Impairments of securities;
  - Change in the fair value of embedded derivatives within certain reinsurance arrangements and the change in the fair value of related trading securities;
  - Change in the fair value of the embedded derivatives of our guaranteed living benefits (GLB) within our variable annuities net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative;
  - Net difference between the benefit ratio unlocking of Statement of Position (SOP) No. 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1) reserves on our guaranteed death benefit (GDB) riders within our variable annuities and the change in the fair value of the derivatives excluding our expected cost of purchasing the hedging instruments; and
  - Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products as required under Statements of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and SFAS No. 157, Fair Value Measurements (SFAS 157).
- Income (loss) from the initial adoption of changes in accounting principles;
- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
- Losses on early retirement of debt, including subordinated debt;

Losses from the impairment of intangible assets; and

Income (loss) from discontinued operations.

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

Excluded realized gain (loss);

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

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

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

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

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

We continue to exclude the effects of any realized gain (loss) on investments from segment operating revenues and income from operations as we believe that such items are not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments.

We believe that our new definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business. See Realized Loss below for more information about these items.

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

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

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

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

- Continued deterioration in general economic and business conditions, both domestic and foreign, that may affect foreign exchange rates, premium levels, claims experience, the level of pension benefit costs and funding and investment results;

- Continued economic declines and credit market illiquidity could cause us to realize additional impairments on investments and certain intangible assets including a valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;

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

- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, LNC s products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital (RBC) requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline VACARVM (VACARVM); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;

- The initiation of legal or regulatory proceedings against LNC or its subsidiaries, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which LNC and its subsidiaries compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and extra-contractual

and class action damage cases; new decisions that result in changes in law; and unexpected trial court rulings;

Changes in interest rates causing a reduction of investment income, the margins of LNC s fixed annuity and life insurance businesses and demand for LNC s products;

A decline in the equity markets causing a reduction in the sales of LNC s products, a reduction of asset-based fees that LNC charges on various investment and insurance products, an acceleration of amortization of DAC, VOBA, DSI and DFEL and an increase in liabilities related to guaranteed benefit features of LNC s variable annuity products;

Ineffectiveness of LNC s various hedging strategies used to offset the impact of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;

A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from LNC s assumptions used in pricing its products, in establishing related insurance reserves and in the amortization of intangibles that may result in an increase in reserves and a decrease in net income, including as a result of stranger-originated life insurance business;

Changes in GAAP that may result in unanticipated changes to LNC s net income, including the impact of SFAS 157 and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ;

Lowering of one or more of LNC s debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on LNC s ability to raise capital and on its liquidity and financial condition;

Lowering of one or more of the insurer financial strength ratings of LNC s insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention and profitability of its insurance subsidiaries;

Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in the portfolios of LNC s companies requiring that LNC realize losses on such investments;

The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including LNC s ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions, including LNC s ability to successfully integrate Jefferson-Pilot Corporation (Jefferson-Pilot) businesses acquired on April 3, 2006, to achieve the expected synergies from the merger or to achieve such synergies within our expected timeframe;

The adequacy and collectibility of reinsurance that LNC has purchased;

Acts of terrorism, war or other man-made and natural catastrophes that may adversely affect LNC s businesses and the cost and availability of reinsurance;

Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that LNC can charge for its products;

The unknown impact on LNC s business resulting from changes in the demographics of LNC s client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and

Loss of key management, portfolio managers in the Investment Management segment, financial planners or wholesalers.

The risks included here are not exhaustive. Other sections of this report, our 2007 Form 10-K, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission (SEC) include additional factors that could impact LNC s business and financial performance, including Item 3. Quantitative and Qualitative Disclosures About Market Risk and the risk discussions included in this section under Critical Accounting Policies and Estimates, Consolidated Investments and Reinsurance, which are incorporated herein by reference. Moreover, LNC operates in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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

INTRODUCTION

Executive Summary

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

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

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

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

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Other Operations also includes our run-off Institutional Pension business, which was previously reported in Employer Markets Retirement Products and the results of our remaining media businesses.

Current Market Conditions

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

Earnings from Assets Under Management

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

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

Investment Income on Alternative Investments

We believe that overall market conditions in both the equity and credit markets caused our alternative investments portfolio, which consists mostly of hedge funds and various limited partnership investments, to perform in line relative to our long-term expectations, but we expect these assets to under-perform, going forward, in the short term. This impact was primarily in our Insurance Solutions Life Insurance, Retirement Solutions Annuities and Retirement Solutions Defined Contribution segments. See Consolidated Investments Alternative Investments for additional information on our investment portfolio.

Variable Annuity Living Benefit Hedge Program Results

We offer variable annuity products with living benefit guarantees. These guarantees are considered embedded derivatives and are recorded on our Consolidated Balance Sheets at fair value under SFAS 133 and SFAS 157. Effective January 1, 2008, we adopted SFAS 157, which affected the valuation of our embedded derivatives. See Note 2 of this report for details on the adoption of SFAS 157. As described below in Critical Accounting Policies and Estimates Derivatives Guaranteed Living Benefits, we use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for living benefits in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in fair value of the embedded derivatives. For the three and nine months ended September 30, 2008, the market conditions noted above negatively affected the net result of the change in the fair value of the living benefit embedded derivative, excluding the effect of a change in our non-performance risk factor, and the change in fair value of the hedging derivatives. The change in our non-performance risk factor used in the calculation of the embedded derivative liability had a favorable effect resulting in an overall positive outcome. These results are excluded from operating revenues and income (loss) from operations.

Credit Losses, Impairments and Unrealized Losses

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

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

In the face of these capital market challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution in new and existing key accounts and channels and targeting market segments that have high growth potential while maintaining a disciplined approach to managing our expenses.

Capital Preservation

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

Emergency Economic Stabilization Act of 2008

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

Strategic and Operational Review

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

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

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

Challenges and Outlook

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

- Continuation of volatility in the equity markets and hedge breakage, as the October 2008 daily average of the S&P 500 Index® declined 17% from its value as of September 30, 2008, causing continued variable account value erosion;
- Continuation of illiquid credit markets and impact on spreads and on other-than-temporary impairments;
- Continuation of the low interest rate environment, which creates a challenge for our products that generate investment margin profits, such as fixed annuities and UL;
- Continuation of challenges in the economy, including the potential for a recession;
- Achieving success in our portfolio of products, marketplace acceptance of new variable annuity features and maintaining management and wholesalers that will help maintain our competitive position; and
- Continuation of focus by the government on tax reform including potential changes in company dividends-received deduction (DRD) calculations, which may impact our products and overall earnings.

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

- Continue near term product development in our manufacturing units and future product development initiatives in our Retirement Income Security Venture unit related to the evolving retirement income security marketplace;
- Engage in cost reduction initiatives and further embed financial and execution discipline throughout our operations by using technology and making other investments to improve operating effectiveness and lower unit costs; and

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

Critical Accounting Policies and Estimates

The MD&A included in our 2007 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the critical accounting policies and estimates provided in our 2007 Form 10-K and, accordingly, should be read in conjunction with the critical accounting policies and estimates discussed in our 2007 Form 10-K.

Adoption of SFAS No. 157 Fair Value Measurements

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

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

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

Our investment securities are valued using market inputs, including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored, and further market data is acquired if certain triggers are met. Credit risk is also incorporated and considered in the valuation of our investment securities as we incorporate the issuer s credit rating and a risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The credit rating is based upon internal and external analysis of the issuer s financial strength. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker/dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with senior business leaders and brokers as well as observations of general market movements for those asset classes. The broker/dealer quotes are non-binding. Our broker-quoted only securities are generally classified as Level 3 in the SFAS 157 hierarchy.

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

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

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

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

[2] Valued primarily at amortized cost, which approximates fair value.

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

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

assumptions are consistent with those that would be used by a market participant; however, as the related markets develop we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value.

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

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

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

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

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

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

DAC, VOBA, DSI and DFEL

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

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

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

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

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

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

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

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

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

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

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

Goodwill and Other Intangible Assets

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

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

Derivatives

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

Guaranteed Living Benefits

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

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

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

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

Acquisitions and Dispositions

Dispositions

Media Business

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

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

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

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

Income (loss) from discontinued operations	$ (1)	$ 7	NM	$ (5)	$ 21	NM

During the first quarter of 2008, we adjusted our loss on disposal of discontinued media properties due primarily to changes in the net assets disposed of for the television broadcasting business.

Fixed Income Investment Management Business

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

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

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

RESULTS OF CONSOLIDATED OPERATIONS

Net Income

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

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

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

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

Net income	$ 148	$ 330	-55%	$ 562	$ 1,102	-49%

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

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

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

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

Net income decreased due primarily to the following:

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

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

- Higher benefits due to growth in business in force and higher death claims;
- Unfavorable GDB derivative results driven by lower account values from unfavorable equity markets; and
- Lower earnings from our variable annuity and mutual fund products as a result of declines in assets under management caused by decreases in the level of the equity markets.

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

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

- Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to declines in variable account values from unfavorable equity markets during 2008;
- A reduction in income tax expense related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to unfavorable tax return true-ups and other items in 2007;
- Higher net investment income driven by more favorable results from our surplus and alternative investments; and
- Lower broker-dealer expenses driven by lower sales and lower merger-related expenses.

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

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

- Impairment of goodwill and our FCC license intangible assets on our remaining radio clusters during the second quarter of 2008 attributable primarily to declines in advertising revenues for the entire radio market; however, these non-cash impairments will not impact our future liquidity;
- A $73 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for annuity and life insurance products with living benefit and death benefit guarantees in 2008 compared to a $34 million favorable retrospective unlocking in 2007;
- Growth in insurance fees driven by increases in life insurance in force as a result of new sales since September 30, 2007, and favorable persistency along with increases in variable account values from positive net flows and transfers from fixed account values, including the fixed portion of variable, partially offset by unfavorable equity markets and adjustments during the second quarter of 2007 resulting from adjusting account values for certain of our life insurance policies and modifying the accounting for certain of our life insurance policies;
- Lower net investment income driven by less favorable results from our alternative investments and prepayment and bond makewhole premiums;
- Lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals;
- The first quarter of 2008 adjustment to our loss on disposition of our discontinued operations;
- A $16 million effect of the initial adoption of SFAS 157 on January 1, 2008; and
- A reduction in benefits in the first quarter of 2007 related to a purchase accounting adjustment to the opening balance sheet of Jefferson-Pilot.

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

RESULTS OF RETIREMENT SOLUTIONS

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

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

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

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

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

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

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

Retirement Solutions Annuities

Income from Operations

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

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

(1) Other revenues and fees consists primarily of broker-dealer earnings that are subject to market volatility.

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

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

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

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

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

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

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

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

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

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

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

- Lower investment income from fixed maturity securities, mortgage loans on real estate and other net investment income primarily attributable to the decline in the average fixed account values, including the fixed portion of variable, driven primarily by transfers to variable account values in excess of net flows;
- A $6 million unfavorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for annuity products with living benefit and death benefit guarantees in 2008 compared to a $14 million favorable retrospective unlocking in 2007;
- The impact of prospective unlocking discussed above; and
- A less favorable net broker-dealer margin attributable to lower earnings from unfavorable equity markets.

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

- Lower DAC and VOBA amortization, net of interest and excluding unlocking, due primarily to a decline in the emergence of gross profits and lower incentive compensation accruals as a result of lower earnings and production performance relative to planned goals;
- A reduction in income tax expense related to favorable tax return true-ups and other items driven primarily by the separate account DRD in 2008, compared to unfavorable tax return true-ups and other items in 2007; and
- An increase in insurance fees driven by higher average daily variable account values attributable to positive net flows and transfers from fixed account values, including the fixed portion of variable, partially offset by unfavorable equity markets.

The foregoing items are discussed further below following Impact of Current Market Conditions. For detail on the operating realized gain, see Realized Loss below.

Impact of Current Market Conditions

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

- Lower variable account values, which will reduce expense assessment revenue, partially offset by lower asset-based expenses;
- Higher unfavorable retrospective unlocking due to lower equity market performance than our model projections assumed; and
- If equity markets do not materially improve over the remainder of the fourth quarter, we may unlock our amortization model assumption for equity market returns for DAC, VOBA, DSI, DFEL and reserves for annuity products with living and death benefit guarantees, resulting in a significant decrease to income from operations in the period. For more information, see Critical Accounting Policies and Estimates DAC, VOBA, DSI and DFEL above.

For factors that could cause actual results to differ materially from those set forth in this section, see Part I Item 1A. Risk Factors in our 2007 Form 10-K as updated by Part II Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language in this report.

Insurance Fees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Investment Income and Interest Credited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Benefits

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

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

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

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

Underwriting, Acquisition, Insurance and Other Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions	$ 161	$ 188	-14%	$ 513	$ 520	-1%
General and administrative expenses	83	82	1%	243	231	5%
Taxes, licenses and fees	5	5	0%	21	17	24%
Total expenses incurred, excluding broker-dealer	249	275	-9%	777	768	1%
DAC and VOBA deferrals	(170)	(196)	13%	(534)	(543)	2%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	79	79	0%	243	225	8%
DAC and VOBA amortization, net of interest:						
Prospective unlocking assumption changes	(2)	(28)	93%	(2)	(28)	93%
Prospective unlocking model refinements		16	-100%		16	-100%
Retrospective unlocking	35	(7)	NM	35	(21)	267%
Other amortization, net of interest	63	103	-39%	241	304	-21%
Broker-dealer expenses incurred:						
Commissions	60	72	-17%	191	212	-10%
General and administrative expenses	18	20	-10%	62	60	3%
Taxes, licenses and fees	1	1	0%	4	4	0%
Total underwriting, acquisition, insurance and other expenses	$ 254	$ 256	-1%	$ 774	$ 772	0%
DAC and VOBA deferrals						
As a percentage of sales/deposits	5.8%	5.6%		5.7%	5.7%	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Income Taxes

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

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

Retirement Solutions Defined Contribution

Income from Operations

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

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

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

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

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

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

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

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

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

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

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

- Lower net investment income attributable to less favorable investment income on surplus and alternative investments.

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

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

- The impact of prospective unlocking discussed above.

In addition, the first nine months of 2008 and 2007 had $3 million unfavorable retrospective unlocking of DAC, VOBA and DSI.

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

Impact of Current Market Conditions

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

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

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

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

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

For factors that could cause actual results to differ materially from those set forth in this section, see Part I Item 1A. Risk Factors in our 2007 Form 10-K as updated by Part II Item 1A. Risk Factors and Forward-Looking Statements Cautionary Language in this report.

Insurance Fees

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

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

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

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

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