LINCOLN NATIONAL CORP
Form 10-Q
May 07, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010
OR

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

For the transition period from to

Commission File Number 1-6028

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

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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

As of May 3, 2010, there were 302,482,745 shares of the registrant's common stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of March 31, 2010 (Unaudited)	As of December 31, 2009
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2010 - $61,590; 2009 - $60,757)	$ 62,881	$ 60,818
Variable interest entities' fixed maturity securities (amortized cost: 2010 - $566)	579	-
Equity securities (cost: 2010 - $377; 2009 - $382)	310	278
Trading securities	2,532	2,505
Mortgage loans on real estate	7,013	7,178
Real estate	201	174
Policy loans	2,903	2,898
Derivative investments	992	1,010
Other investments	1,047	1,057
Total investments	78,458	75,918
Cash and invested cash	3,445	4,025
Deferred acquisition costs and value of business acquired	9,195	9,510
Premiums and fees receivable	397	321
Accrued investment income	940	889
Reinsurance recoverables	6,520	6,426
Goodwill	3,013	3,013
Other assets	3,224	3,831
Separate account assets	76,429	73,500
Total assets	$ 181,621	$ 177,433
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 15,270	$ 15,287
Other contract holder funds	65,452	64,818
Short-term debt	101	350
Long-term debt	5,060	5,050
Reinsurance related embedded derivatives	47	31
Funds withheld reinsurance liabilities	1,216	1,261
Deferred gain on business sold through reinsurance	525	543
Payables for collateral on investments	1,828	1,907
Variable interest entities' liabilities	142	-
Other liabilities	3,183	2,986
Separate account liabilities	76,429	73,500
Total liabilities	169,253	165,733

Contingencies and Commitments (See Note 9)		
Stockholders' Equity		
Series A preferred stock - 10,000,000 shares authorized; 11,365 and 11,497 shares issued and outstanding as of March 31, 2010, and December 31, 2009, respectively	-	-
Series B preferred stock - 950,000 shares authorized and outstanding as of March 31, 2010, and December 31, 2009	812	806
Common stock - 800,000,000 shares authorized; 302,467,034 and 302,223,281 shares issued and outstanding as of March 31, 2010, and December 31, 2009, respectively	7,845	7,840
Retained earnings	3,409	3,316
Accumulated other comprehensive income (loss)	302	(262)
Total stockholders' equity	12,368	11,700
Total liabilities and stockholders' equity	$ 181,621	$ 177,433

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2010	2009
Revenues		
Insurance premiums	$532	$509
Insurance fees	788	701
Net investment income	1,106	1,013
Realized loss:		
Total other-than-temporary impairment losses on securities	(77)	(211)
Portion of loss recognized in other comprehensive income (loss)	24	89
Net other-than-temporary impairment losses on securities recognized in earnings	(53)	(122)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	27	(74)
Total realized loss	(26)	(196)
Amortization of deferred gain on business sold through reinsurance	19	19
Other revenues and fees	108	86
Total revenues	2,527	2,132
Benefits and Expenses		
Interest credited	618	627
Benefits	779	921
Underwriting, acquisition, insurance and other expenses	714	643
Interest and debt expense	68	-
Impairment of intangibles	-	604
Total benefits and expenses	2,179	2,795
Income (loss) from continuing operations before taxes	348	(663)
Federal income tax expense (benefit)	93	(76)
Income (loss) from continuing operations	255	(587)
Income from discontinued operations, net of federal income taxes	28	8
Net income (loss)	283	(579)
Preferred stock dividends and accretion of discount	(18)	-
Net income (loss) available to common stockholders	$265	$(579)
Earnings (Loss) Per Common Share - Basic		
Income (loss) from continuing operations	$0.79	$(2.30)
Income from discontinued operations	0.09	0.03
Net income (loss)	$0.88	$(2.27)
Earnings (Loss) Per Common Share - Diluted		
Income (loss) from continuing operations	$0.76	$(2.30)
Income from discontinued operations	0.09	0.03

Net income (loss)	$0.85	$(2.27)

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2010	2009
Preferred Stock		
Balance as of beginning-of-year	$806	$-
Accretion of discount on Series B preferred stock	6	-
Balance as of end-of-period	812	-
Common Stock		
Balance as of beginning-of-year	7,840	7,035
Stock compensation/issued for benefit plans	5	(5)
Deferred compensation payable in stock	-	3
Balance as of end-of-period	7,845	7,033
Retained Earnings		
Balance as of beginning-of-year	3,316	3,745
Cumulative effect from adoption of new accounting standards	(169)	102
Comprehensive income (loss)	666	(649)
Less other comprehensive income (loss), net of tax	383	(70)
Net income (loss)	283	(579)
Dividends declared: Common (2010 - $0.010; 2009 - $0.010)	(3)	(3)
Dividends on preferred stock	(12)	-
Accretion of discount on Series B preferred stock	(6)	-
Balance as of end-of-period	3,409	3,265
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	(262)	(2,803)
Cumulative effect from adoption of new accounting standards	181	(102)
Other comprehensive income (loss), net of tax	383	(70)
Balance as of end-of-period	302	(2,975)
Total stockholders' equity as of end-of-period	$12,368	$7,323

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	$ 283	$ (579)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(48)	(103)
Trading securities purchases, sales and maturities, net	2	37
Change in premiums and fees receivable	(27)	37
Change in accrued investment income	(51)	(49)
Change in future contract benefits	140	(233)
Change in other contract holder funds	178	(2)
Change in reinsurance related assets and liabilities	(139)	(170)
Change in federal income tax accruals	315	36
Realized loss	26	196
Gain on disposal of discontinued operations	(64)	-
Gain on early extinguishment of debt	-	(64)
Impairment of intangibles	-	604
Amortization of deferred gain on business sold through reinsurance	(19)	(19)
Other	(31)	(35)
Net cash provided by (used in) operating activities	565	(344)
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(3,418)	(2,719)
Sales of available-for-sale securities	805	1,242
Maturities of available-for-sale securities	919	731
Purchases of other investments	(694)	(1,201)
Sales or maturities of other investments	695	2,411
Decrease in payables for collateral on investments	(79)	(1,320)
Proceeds from sale of subsidiaries/businesses, net of cash disposed	293	2
Other	(10)	(16)
Net cash used in investing activities	(1,489)	(870)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(250)	(22)
Increase in commercial paper, net	1	371
Deposits of fixed account values, including the fixed portion of variable	2,382	2,612
Withdrawals of fixed account values, including the fixed portion of variable	(1,251)	(1,590)
Transfers to and from separate accounts, net	(682)	(408)
Common stock issued for benefit plans and excess tax benefits	-	(8)
Dividends paid to common and preferred stockholders	(15)	(54)

Net cash provided by financing activities	185	901
Net decrease in cash and invested cash, including discontinued operations	(739)	(313)
Cash and invested cash, including discontinued operations, as of beginning-of-year	4,184	5,926
Cash and invested cash, including discontinued operations, as of end-of-period	$3,445	$5,613

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 14 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life ("UL") insurance, variable universal life ("VUL") insurance, linked-benefit UL, term life insurance, mutual funds and group protection.

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, 2009 ("2009 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the three month period ended March 31, 2010, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. All material intercompany accounts and transactions have been eliminated in consolidation.

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

Summary of Significant Accounting Policies

Available-For-Sale Securities – Fair Valuation Methodologies and Associated Inputs

Securities classified as available-for-sale ("AFS") consist of fixed maturity and equity securities and are stated at fair value with unrealized gains and losses included within accumulated other comprehensive income (loss) ("OCI"), net of associated deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI"), other contract holder funds and deferred income taxes. See Notes 5 and 13 for additional details.

We measure the fair value of our securities classified as AFS based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and we consistently apply the valuation methodology to measure the security's fair value. Our fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the

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

We use observable and unobservable inputs in our valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with senior business leaders and brokers and observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, we use unobservable inputs in order to measure the fair value of these securities. In cases where this information is not available, such as for privately placed securities, fair value is estimated using an internal pricing matrix. This matrix relies on management's judgment concerning the discount rate used in calculating expected future cash flows, credit quality, industry sector performance and expected maturity.

The observable and unobservable inputs to our valuation methodologies are based on a set of standard inputs that we generally use to evaluate all of our AFS securities. The standard inputs used in order of priority are benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Depending on the type of security or the daily market activity, standard inputs may be prioritized differently or may not be available for all AFS securities on any given day.

The following summarizes our fair valuation methodologies and associated inputs, which are particular to the specified security type and in addition to the defined standard inputs to our valuation methodologies for all of our AFS securities discussed above:

- Corporate bonds and U.S. Government bonds – We also use Trade Reporting and Compliance EngineTM reported tables for our corporate bonds and vendor trading platform data for our U.S. Government bonds.
- Mortgage- and asset-backed securities – We also utilize additional inputs which include new issues data, monthly payment information and monthly collateral performance, including prepayments, severity, delinquencies, step-down features and over collateralization features for each of our mortgage-backed securities (“MBS”), which include collateralized mortgage obligations (“CMOs”), residential mortgages that back mortgage pass through securities (“MPTS”) and commercial mortgages that back commercial MBS (“CMBS”), and for our asset-backed securities (“ABS”) collateralized debt obligations (“CDOs”).
- State and municipal bonds – We also use additional inputs which include information from the Municipal Securities Rule Making Board, as well as material event notices, new issue data, issuer financial statements and Municipal Market Data benchmark yields for our state and municipal bonds.
- Hybrid and redeemable preferred and equity securities – We also utilize additional inputs of exchange prices (underlying and common stock of the same issuer) for our hybrid and redeemable preferred stocks and equity securities, including banking, insurance, other financial services and other securities.

2. New Accounting Standards

Adoption of New Accounting Standards

Consolidations Topic

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (“ASU 2009-17”), which amended the consolidation guidance for variable interest entities (“VIEs”). For a more detailed description of ASU 2009-17, see “Future Adoption of New Accounting Standards – Consolidations Topic” in Note 2 of our 2009 Form 10-K. In February 2010, the FASB issued ASU No. 2010-10, “Amendments for Certain Investment Funds” (“ASU 2010-10”), which deferred application of the guidance in ASU 2009-17 for reporting entities with interests in an entity that applies the specialized accounting guidance for investment companies.

Effective January 1, 2010, we adopted the amendments in ASU 2009-17 and ASU 2010-10, and accordingly reconsidered our involvement with all our VIEs and the primary beneficiary of the VIEs. In accordance with ASU 2009-17, we are the primary beneficiary of the VIEs associated with our investments in credit-linked notes (“CLNs”), and as such, we consolidated all of the assets and liabilities of these VIEs and recorded a cumulative effect adjustment of $169 million, after-tax, to the beginning balance of retained earnings as of January 1, 2010. In addition, we considered our investments in limited partnerships and other alternative investments, and concluded these investments are within the scope of the deferral in ASU 2010-10, and as such they are not subject to the amended consolidation guidance in ASU 2009-17. As a result, we will continue to account for our alternative investments consistent with the accounting policy in Note 1 of our 2009 Form 10-K. See Note 4 for more detail regarding the consolidation of our VIEs.

Fair Value Measurements and Disclosures Topic

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which requires us to disclose additional information related to the three-level fair value hierarchy. For a more detailed description of ASU 2010-06, see "Future Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic" in Note 2 of our 2009 Form 10-K. We adopted the amendments in ASU 2010-06 effective January 1, 2010, and have prospectively included the required disclosures in Note 13. The disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements are effective for reporting periods beginning after December 15, 2010, and as such, these disclosures will be included in the notes to our consolidated financial statements effective January 1, 2011.

Transfers and Servicing Topic

In June 2009, the FASB issued ASU No. 2009-16, "Accounting for Transfers of Financial Assets" ("ASU 2009-16"), which eliminates the concept of a qualifying special-purpose entity ("SPE") and removes the scope exception for a qualifying SPE from the Consolidations Topic of the FASB Accounting Standards CodificationTM ("ASC"). For a more detailed description of ASU 2009-16, see "Future Adoption of New Accounting Standards – Transfers and Servicing Topic" in Note 2 of our 2009 Form 10-K. We adopted ASU 2009-16 effective January 1, 2010. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Future Adoption of New Accounting Standards

Derivatives and Hedging Topic

In March 2010, the FASB issued ASU No. 2010-11, "Scope Exception Related to Embedded Credit Derivatives" ("ASU 2010-11"), to clarify the scope exception when evaluating an embedded credit derivative which may potentially require separate accounting. Specifically, ASU 2010-11 states that only an embedded credit derivative feature related to the transfer of credit risk that is solely in the form of subordination of one financial instrument to another is not subject to further analysis as a potential embedded derivative under the Derivatives and Hedging Topic of the FASB ASC. The amendments specify that embedded credit derivatives not qualifying for the scope exception, such as an embedded derivative related to a credit default swap on a referenced credit, would be subject to a bifurcation analysis even if their effects are allocated to interests in subordinated tranches of the securitized financial instrument. ASU 2010-11 will be effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The fair value option may be elected for investments within the scope of ASU 2010-11 on an instrument-by-instrument basis. If the fair value option is not elected, preexisting contracts acquired, issued or subject to a remeasurement event on or after January 1, 2007, must be evaluated under the guidance in ASU 2010-11. We will adopt the amendments in ASU 2010-11 effective July 1, 2010, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

Financial Services – Insurance Industry Topic

In April 2010, the FASB issued ASU No. 2010-15, "How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments" ("ASU 2010-15"), to clarify a consolidation issue for insurance entities that hold a controlling interest in an investment fund either partially or completely through separate accounts. ASU 2010-15 concludes that an insurance entity would not be required to consider interests held in separate accounts when determining whether or not to consolidate an investment fund, unless the separate account interest is held for the benefit of a related party. If an investment fund is consolidated, the portion of the assets representing interests held in separate accounts would be recorded as a separate account asset with a corresponding separate account liability. The remaining investment fund assets would be consolidated in the insurance entity's general account. ASU 2010-15 will be applied retrospectively for fiscal years and interim periods within those fiscal years beginning after December 15, 2010, with early application permitted. We are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

3. Dispositions

Discontinued Investment Management Operations

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

transaction closed on January 4, 2010, with cash proceeds of $452 million.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company ("LNL"), our primary insurance subsidiary, entered into investment advisory agreements with Delaware, pursuant to which Delaware will continue to manage the majority of the general account insurance assets of the subsidiaries. The investment advisory agreements will have 10-year terms, and we may terminate them without cause, subject to a purchase price adjustment of up to $82 million, the amount of which is dependent on the timing of any termination and which agreements are terminated. The amount of the potential adjustment will decline on a pro rata basis over the 10-year term of the advisory agreements.

Accordingly, in the periods prior to closing, the assets and liabilities of this business have been classified 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 December 31, 2009
Assets	
Cash and invested cash	$159
Premiums and fees receivable	39
Goodwill	248
Other assets	61
Total assets held-for-sale	$507
Liabilities	
Other liabilities	$116
Total liabilities held-for-sale	$116

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

	For the Three Months Ended March 31,	
	2010	2009
Discontinued Operations Before Disposal		
Revenues:		
Investment advisory fees – external	$-	$44
Investment advisory fees – internal	-	20
Other revenues and fees	-	18
Gain on sale of business	-	2
Total revenues	$-	$84
Income (loss) from discontinued operations before disposal, before federal income tax expense (benefit)	$(17)	$6
Federal income tax expense (benefit)	(3)	3
Income (loss) from discontinued operations before disposal	(14)	3
Disposal		
Gain on disposal, before federal income tax expense	37	-
Federal income tax expense	13	-
Gain on disposal	24	-
Income from discontinued operations	$10	$3

The loss from discontinued operations before disposal in the first quarter of 2010 reflects stock compensation expense attributable to the acceleration of vesting of equity awards for certain Delaware employees upon the sale of Delaware.

There could be post-closing adjustments, some of which are beyond our control, and no assurance can be given as to the timing of its completion as an extension beyond 120 days is allowed in the share purchase agreement if there is disagreement during this period.

Discontinued U.K. Operations

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

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

	For the Three Months Ended March 31,	
	2010	2009
Discontinued Operations Before Disposal		
Revenues:		
Insurance premiums	$ -	$ 10
Insurance fees	-	24
Net investment income	-	13
Realized loss	-	(2)
Total revenues	$ -	$ 45
Income from discontinued operations before disposal, before federal income tax expense	$ -	$ 8
Federal income tax expense	-	3
Income from discontinued operations before disposal	-	5
Disposal		
Gain on disposal, before federal income tax expense	27	-
Federal income tax expense	9	-
Gain on disposal	18	-
Income from discontinued operations	$ 18	$ 5

The gain on disposal for the three months ended March 31, 2010, relates to additional consideration received attributable to a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement.

4. Variable Interest Entities

Our involvement with VIEs is primarily to obtain financing and to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. The factors used to determine whether or not we are the primary beneficiary and must consolidate a VIE where we have a variable interest changed effective January 1, 2010, upon the adoption of new accounting guidance. See "Consolidations Topic" in Note 2 for details. Beginning January 1, 2010, we continuously analyze the primary beneficiary of each VIE with which we are involved to determine whether we are the primary beneficiary using a qualitative approach which requires us to identify the variable interest that has the power to direct activities that most significantly impact the performance of the VIE and absorb losses or receive returns that could potentially be significant to the VIE.

Consolidated VIEs

We invested in the Class 1 Notes of two CLN structures, which represent special purpose trusts that combine asset-backed securities with credit default swaps to produce multi-class structured securities. The Class 2 Notes are held by third parties, and, together with the Class 1 Notes, represent 100% of the outstanding notes of the CLN structures. The entities that issued the CLNs are financed by the note holders, and, as such, the note holders participate in the expected losses and residual returns of the entities. Because the note holders do not have voting rights or similar rights, we determined the entities issuing the CLNs are VIEs, and as a note holder, our interest represented a variable interest. As of December 31, 2009, these VIEs were not consolidated because under the previous accounting guidance, we were not the primary beneficiary of the VIEs because the subordinated class of notes (Class 2) absorbed the majority of the expected losses under the CLN structures. The carrying value of the CLNs as of December 31, 2009, was $322 million and was recognized as a fixed maturity security within AFS on our Consolidated Balance Sheets.

Effective January 1, 2010, we adopted the new accounting guidance noted above and evaluated the power of the variable interests in the CLN structures. Based on our evaluation, we concluded that the ability to actively manage the reference portfolio underlying the credit default swaps is the most significant activity that impacts the performance of the CLN structures, because the subordination and participation in credit losses may change. We concluded that we have the power to direct this activity. In addition, we receive returns from the CLN structures and may absorb losses that could potentially be significant to the CLN structures. As such, we concluded that we are the primary beneficiary of the VIEs associated with our CLNs. We consolidated all of the assets and liabilities of the CLN structures through a cumulative effect adjustment to the beginning balance of retained earnings as of January 1, 2010, and recognized the results of operations of these VIEs on our consolidated financial statements for the first quarter of 2010.

The following summarizes the increases or (decreases) recorded effective January 1, 2010, to the categories (in millions) on our Consolidated Balance Sheets for this cumulative effect adjustment:

Assets	
AFS securities, at fair value:	
Fixed maturity securities - ABS CLNs	$(322)
VIEs' fixed maturity securities	565
Total assets	$243
Liabilities	
VIEs' liabilities:	
Derivative instruments	$225
Federal income tax	(91)
Total VIEs' liabilities	134
Other liabilities - deferred income taxes	97
Total liabilities	231
Stockholders' Equity	
Retained earnings	(169)
Accumulated OCI - unrealized gain (loss) on AFS securities	181
Total stockholders' equity	12
Total liabilities and stockholders' equity	$243

Asset and liability information (in millions) for these consolidated VIEs included on our Consolidated Balance Sheets as of March 31, 2010, was as follows:

	Number of Instruments	Notional Amounts	Carrying Value
Assets			
Fixed maturity corporate asset-backed credit card loan securities	-	$-	$579
Liabilities			
Derivative instruments not designated and not qualifying as hedging instruments:			
Credit default swaps (1)	2	$600	$238
Contingent forwards	-	-	(9)
Total derivative instruments not designated and not qualifying as			

hedging instruments	2	600	229
Federal income tax	-	-	(87)
Total liabilities	2	$600	$142

(1) $200 million of the notional amount matures in March 2017 and $400 million matures December 2016.

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The carrying values of the assets and liabilities for these consolidated VIEs as of March 31, 2010, are presented on our Consolidated Balance Sheets. For details related to the fixed maturity AFS securities for these VIEs, see Note 5.

The credit default swaps create variability in the CLN structures and expose the note holders to the credit risk of the referenced portfolio.

The contingent forwards transfer a portion of the loss in the underlying fixed maturity corporate asset-backed credit card loan securities back to the counterparty after credit losses reach our attachment point.

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

	For the Three Months Ended March 31, 2010
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments	
Credit default swaps (1)	$ (5)
Contingent forwards (1)	1
Total derivative instruments not designated and not qualifying as hedging instruments	$ (4)

(1) Reported in realized loss on our Consolidated Statements of Income (Loss).

As of March 31, 2010, and December 31, 2009, other contract holder funds on our Consolidated Balance Sheets included $600 million outstanding in funding agreements of LNL. LNL invested the proceeds of $600 million received for issuing two funding agreements in 2006 and 2007 into the Class 1 Notes of the two CLN structures we are consolidating.

To date, there has been one default in the underlying collateral pool of the $400 million CLN structure and two defaults in the underlying collateral pool of the $200 million CLN structure. There has been no event of default on the CLNs themselves. Based upon our analysis, the remaining subordination as represented by the attachment point should be sufficient to absorb future credit losses, subject to changing market conditions. Similar to other debt market instruments, our maximum principal loss is limited to our original investment of $600 million as of March 31, 2010.

As described more fully in Note 1 of our 2009 10-K, we regularly review our investment holdings for other-than-temporary impairments (“OTTIs”). Based upon this review, we believe that the fixed maturity corporate asset-backed credit card loan securities were not other-than-temporarily impaired as of March 31, 2010.

The following summarizes information regarding the CLN structures (dollars in millions) as of March 31, 2010:

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

Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.78%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	B-	Ba3
Current rating of underlying collateral pool	Aa1-B1	Aaa-B1
Number of entities	123	99
Number of countries	19	23

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of March 31, 2010:

Industry	AAA		AA		A		BBB		BB		B		Total	
Financial intermediaries	0.4	%	3.5	%	7.2	%	0.5	%	0.0	%	0.0	%	11.6	%
Telecommunications	0.0	%	0.0	%	6.4	%	3.7	%	1.1	%	0.0	%	11.2	%
Oil and gas	0.0	%	1.4	%	1.2	%	4.9	%	0.0	%	0.0	%	7.5	%
Utilities	0.0	%	0.0	%	2.0	%	2.5	%	0.0	%	0.0	%	4.5	%
Chemicals and plastics	0.0	%	0.0	%	2.3	%	1.6	%	0.0	%	0.0	%	3.9	%
Drugs	0.3	%	2.5	%	0.9	%	0.0	%	0.0	%	0.0	%	3.7	%
Retailers (except food & drug)	0.0	%	0.0	%	0.7	%	1.7	%	1.1	%	0.0	%	3.5	%
Industrial equipment	0.0	%	0.0	%	3.0	%	0.3	%	0.0	%	0.0	%	3.3	%
Sovereign	0.0	%	0.3	%	1.6	%	1.3	%	0.0	%	0.0	%	3.2	%
Forest products	0.0	%	0.0	%	0.0	%	1.7	%	1.4	%	0.0	%	3.1	%
Other industry < 3% (28 industries)	0.0	%	3.7	%	16.8	%	18.8	%	3.4	%	1.8	%	44.5	%
Total by industry	0.7	%	11.4	%	42.1	%	37.0	%	7.0	%	1.8	%	100.0	%

Unconsolidated VIEs

Through our investment activities, we make passive investments in structured securities issued by VIEs for which we are not the manager. These structured securities include our MBS, which include CMOs, MPTS and CMBS and our ABS CDOs. We have not provided financial or other support with respect to these structured securities other than our original investment. We have determined that we are not the primary beneficiary of these structured securities due to the relative size of our investment in comparison to the principal amount of the structured securities issued by the VIEs and the level of credit subordination which reduces our obligation to absorb losses or right to receive benefits. Our maximum exposure to loss on these structured securities, both VIEs and non-VIEs, is limited to the amortized cost for these investments. We recognize our variable interest in these VIEs at fair value on our consolidated financial statements. For information about these structured securities, see Note 5.

5. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB ASC, we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2009 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

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

	As of March 31, 2010				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$45,580	$2,588	$824	$60	$47,284
U.S. Government bonds	191	12	4	-	199
Foreign government bonds	431	29	4	-	456
MBS:					
CMOs	6,012	295	245	157	5,905
MPTS	3,272	72	19	-	3,325
CMBS	2,374	80	318	-	2,136
ABS CDOs	183	14	27	9	161
State and municipal bonds	2,196	31	29	-	2,198
Hybrid and redeemable preferred securities	1,351	38	172	-	1,217
VIEs' fixed maturity securities	566	13	-	-	579
Total fixed maturity securities	62,156	3,172	1,642	226	63,460
Equity Securities					
Banking securities	266	6	96	-	176
Insurance securities	31	2	-	-	33
Other financial services securities	19	14	-	-	33
Other securities	61	7	-	-	68
Total equity securities	377	29	96	-	310
Total AFS securities	$62,533	$3,201	$1,738	$226	$63,770

	As of December 31, 2009				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$44,307	$2,260	$1,117	$71	$45,379
U.S. Government bonds	186	13	4	-	195
Foreign government bonds	488	26	9	-	505
MBS:					
CMOs	6,112	258	307	157	5,906
MPTS	3,028	64	26	-	3,066
CMBS	2,436	49	354	-	2,131
ABS:					
CDOs	189	11	33	9	158
CLNs	600	-	278	-	322
State and municipal bonds	2,009	14	55	-	1,968
Hybrid and redeemable preferred securities	1,402	36	250	-	1,188
Total fixed maturity securities	60,757	2,731	2,433	237	60,818
Equity Securities					
Banking securities	266	-	119	-	147
Insurance securities	44	2	-	-	46
Other financial services securities	22	12	6	-	28
Other securities	50	7	-	-	57
Total equity securities	382	21	125	-	278
Total AFS securities	$61,139	$2,752	$2,558	$237	$61,096

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

	As of March 31, 2010	
	Amortized Cost	Fair Value
Due in one year or less	$2,312	$2,362
Due after one year through five years	12,935	13,656
Due after five years through ten years	17,734	18,676
Due after ten years	17,334	17,239
Subtotal	50,315	51,933
MBS	11,658	11,366
CDOs	183	161
Total fixed maturity AFS securities	$62,156	$63,460

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

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

	As of March 31, 2010					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$4,402	$182	$4,689	$702	$9,091	$884
U.S. Government bonds	37	2	13	2	50	4
Foreign government bonds	47	1	9	3	56	4
MBS:						
CMOs	376	150	891	252	1,267	402
MPTS	1,076	10	62	9	1,138	19
CMBS	76	9	498	309	574	318
ABS CDOs	13	4	129	32	142	36
State and municipal bonds	905	20	58	9	963	29
Hybrid and redeemable preferred securities	46	10	807	162	853	172
Total fixed maturity securities	6,978	388	7,156	1,480	14,134	1,868
Equity Securities						
Banking securities	1	1	146	95	147	96
Insurance securities	8	-	-	-	8	-
Other financial services securities	7	-	-	-	7	-
Total equity securities	16	1	146	95	162	96
Total AFS securities	$6,994	$389	$7,302	$1,575	$14,296	$1,964

Total number of AFS securities in an unrealized loss position	1,513

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	As of December 31, 2009					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$4,375	$236	$5,795	$952	$10,170	$1,188
U.S. Government bonds	44	4	3	-	47	4
Foreign government bonds	34	-	46	9	80	9
MBS:						
CMOs	404	159	929	305	1,333	464
MPTS	1,293	14	81	12	1,374	26
CMBS	153	13	656	341	809	354
ABS:						
CDOs	9	7	128	35	137	42
CLNs	-	-	322	278	322	278
State and municipal bonds	1,203	46	54	9	1,257	55
Hybrid and redeemable preferred securities	105	5	819	245	924	250
Total fixed maturity securities	7,620	484	8,833	2,186	16,453	2,670
Equity Securities						
Banking securities	124	119	-	-	124	119
Insurance securities	8	-	-	-	8	-
Other financial services securities	4	6	-	-	4	6
Other securities	-	-	-	-	-	-
Total equity securities	136	125	-	-	136	125
Total AFS securities	$7,756	$609	$8,833	$2,186	$16,589	$2,795
Total number of AFS securities in an unrealized loss position						1,735

For information regarding our investments in VIEs, see Note 4.

We perform detailed analysis on the AFS securities backed by pools that are most at risk of impairment based on factors discussed in Note 1 in our 2009 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of March 31, 2010		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$3,901	$3,116	$785
AFS securities backed by pools of commercial mortgages	953	613	340
Total	$4,854	$3,729	$1,125
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$2,714	$1,941	$773
AFS securities backed by pools of commercial mortgages	248	109	139
Total	$2,962	$2,050	$912

	As of December 31, 2009		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$4,316	$3,388	$928
AFS securities backed by pools of commercial mortgages	1,220	841	379
Total	$5,536	$4,229	$1,307
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$2,858	$1,948	$910
AFS securities backed by pools of commercial mortgages	311	164	147
Total	$3,169	$2,112	$1,057

For the three months ended March 31, 2010, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $43 million, pre-tax, and before associated amortization expense for DAC, VOBA, DSI and deferred front-end loads ("DFEL"), of which a $5 million decrease was recognized in OCI and a $48 million increase was recognized in net income (loss).

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

	As of March 31, 2010			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$222	$70	$2	44
Six months or greater, but less than nine months	34	13	-	16
Nine months or greater, but less than twelve months	193	48	79	42
Twelve months or greater	1,552	1,022	134	296
Total	$2,001	$1,153	$215	398

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	As of December 31, 2009			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$434	$130	$4	81
Six months or greater, but less than nine months	118	61	-	25
Nine months or greater, but less than twelve months	427	165	100	96
Twelve months or greater	1,800	1,426	124	310
Total	$2,779	$1,782	$228	512

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

We regularly review our investment holdings for OTTI. Based upon this review, the cause of the $831 million decrease in our gross AFS securities unrealized losses for the three months ended March 31, 2010, was attributable primarily to increased liquidity in several market segments and improved credit fundamentals (i.e., market improvement and narrowing credit spreads). As discussed further below, we believe the unrealized loss position as of March 31, 2010, does not represent OTTI as we did not intend to sell these fixed maturity AFS securities, it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of March 31, 2010, management believed we had the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of March 31, 2010, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the security and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of March 31, 2010, the unrealized losses associated with our MBS and ABS CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Cash flow forecasts also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each security.

As of March 31, 2010, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated

the financial performance of the issuer based upon credit performance and investment ratings and determined we expected to recover the entire amortized cost of each security.

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

	For the Three Months Ended March 31,	
	2010	2009
Balance as of beginning-of-year	$268	$31
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	2	72
Credit losses on securities for which an OTTI was previously recognized	27	-
Decreases attributable to:		
Securities sold	(4)	-
Balance as of end-of-period	$293	$103

During the three months ended March 31, 2010, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	For the Three Months Ended March 31, 2010			
	Amortized Cost	Gross Unrealized OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$149	$58	$91	$57
MBS CMOs	412	145	267	236
Total	$561	$203	$358	$293

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for approximately 29% of mortgage loans as of March 31, 2010, and December 31, 2009. The number of impaired mortgage loans and the carrying value of impaired mortgage loans (in millions) were as follows:

	As of March 31, 2010	As of December 31, 2009
Number of impaired mortgage loans	8	9
Impaired mortgage loans	$66	$56
Valuation allowance associated with impaired mortgage loans	(19)	(22)
Carrying value of impaired mortgage loans	$47	$34

The average carrying value and associated interest income on the impaired mortgage loans (in millions) was as follows:

	For the Three Months Ended March 31,	
	2010	2009
Average carrying value for impaired loans	$40	$-

For the three months ended March 31, 2010, we have recognized and collected less than $1 million of interest income on impaired mortgage loans. For the three months ended March 31, 2009, we did not recognize or collect interest income on impaired mortgage loans.

Alternative Investments

As of March 31, 2010, and December 31, 2009, alternative investments included investments in approximately 98 and 99 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Realized Loss Related to Investments

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

	For the Three Months Ended March 31,	
	2010	2009
Fixed maturity AFS securities:		
Gross gains	$50	$55
Gross losses	(84)	(241)
Equity AFS securities:		
Gross gains	-	3
Gross losses	(4)	(3)

Loss on other investments	(22)	(2)
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	4	55
Total realized loss on investments, excluding trading securities	(56)	(133)
Gain (loss) on certain derivative instruments	12	(17)
Total realized loss on investments and certain derivative instruments, excluding trading securities	$(44)	$(150)

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

	For the Three Months Ended March 31, 2010	2009
OTTI Recognized in Net Income (Loss)		
Fixed maturity securities:		
Corporate bonds	$41	$82
MBS:		
CMOs	24	81
ABS CDOs	1	-
Hybrid and redeemable preferred securities	5	1
Total fixed maturity securities	71	164
Equity securities:		
Other financial services securities	3	-
Other securities	-	3
Total equity securities	3	3
Gross OTTI recognized in net income (loss)	74	167
Associated amortization expense of DAC, VOBA, DSI and DFEL	(21)	(45)
Net OTTI recognized in net income (loss), pre-tax	$53	$122
Portion of OTTI Recognized in OCI		
Gross OTTI recognized in OCI	$22	$112
Change in DAC, VOBA, DSI and DFEL	2	(23)
Net portion of OTTI recognized in OCI, pre-tax	$24	$89

Determination of Credit Losses on Corporate Bonds and ABS CDOs

As of March 31, 2010, we reviewed our corporate bond and ABS CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service, are generally considered by the rating agencies and market participants to be low credit risk. As of March 31, 2010, 95% of the fair value of our corporate bond portfolio was rated investment grade. As of March 31, 2010, our corporate bond portfolio rated below investment grade had an amortized cost of $2.9 billion and a fair value of $2.6 billion. As of March 31, 2010, 84% of the fair value of our ABS CDO portfolio was rated investment grade. As of March 31, 2010, our ABS CDO portfolio rated below investment grade had an amortized cost of $20 million and fair value $27 million. Based upon the analysis discussed above, we believed as of March 31, 2010, that we would recover the amortized cost of each corporate bond and ABS CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the year ended March 31, 2010, the recovery as a percentage of amortized cost was 58% for corporate bonds and 0% for ABS CDOs.

Determination of Credit Losses on MBS

As of March 31, 2010, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

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

Payables for Collateral on Investments

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

	As of March 31, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$613	$613	$617	$617
Securities pledged under securities lending agreements (2)	440	425	501	479
Securities pledged under reverse repurchase agreements (3)	335	350	344	359
Securities pledged for Treasury Asset-Backed Securities Loan Facility ("TALF") (4)	340	384	345	386
Securities pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	100	112	100	111
Total payables for collateral on investments	$1,828	$1,884	$1,907	$1,952

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that once exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.
(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
(3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parities contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.
(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
(5) Our pledged securities for FHLBI are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 85% to 95% of the fair value of the FHLBI securities. The cash received in these transactions is typically invested in cash and invested cash or fixed maturity AFS securities.

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

	For the Three Months Ended March 31,

	2010	2009
Collateral payable held for derivative investments	$(4)	$(1,194)
Securities pledged under securities lending agreements	(61)	(116)
Securities pledged under reverse repurchase agreements	(9)	(10)
Securities pledged for TALF	(5)	-
Total decrease in payables for collateral on investments	$(79)	$(1,320)

Investment Commitments

As of March 31, 2010, our investment commitments for fixed maturity AFS securities (primarily private placements), limited partnerships, real estate and mortgage loans on real estate were $845 million, which included $367 million of limited partnerships, $136 million of standby commitments to purchase real estate upon completion and leasing and $309 million of private placements.

Concentrations of Financial Instruments

As of March 31, 2010, and December 31, 2009, our most significant investment in one issuer was our investment securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $5.1 billion and $4.8 billion, or 7% and 6% of our invested assets portfolio totaling $78.5 billion and $75.9 billion, respectively. As of March 31, 2010, and December 31, 2009, our most significant investment in one industry was our investment securities in the CMO industry with a fair value of $7.0 billion and $6.9 billion, or 9% of the invested assets portfolios, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount, as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

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

We evaluate and recognize our derivative instruments in accordance with the Derivatives and Hedging Topic of the FASB ASC. As of March 31, 2010, we had derivative instruments that were designated and qualifying as cash flow hedges and fair value hedges. We also had embedded derivatives that did not qualify as hedging instruments and derivative instruments that were economic hedges, but were not designed to meet the requirements to be accounted for as a hedge. See Note 1 in our 2009 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

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

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with living benefit guarantees offered in our variable annuity

products, including the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit (“GWB”) feature, the 4LATER® Advantage guaranteed income benefit (“GIB”) feature and the i4LIFE® Advantage GIB feature. See “Guaranteed Living Benefit Embedded Derivative Reserves” below for further details.

See Note 13 for additional disclosures related to our fair value of financial instruments and see Note 4 for information related to our consolidated VIEs.

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

	As of March 31, 2010					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value		(Liability) Carrying or Fair Value	
			Gain	Loss	Gain	Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	84	$586	$27	$(48)	$-	$-
Foreign currency swaps (1)	13	340	39	(10)	-	-
Total cash flow hedges	97	926	66	(58)	-	-
Fair value hedges:						
Interest rate swap agreements (1)	4	1,175	63	-	-	-
Equity collars (1)	1	49	124	-	-	-
Total fair value hedges	5	1,224	187	-	-	-
Total derivative instruments designated and qualifying as hedging instruments	102	2,150	253	(58)	-	-
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	15	750	-	-	-	-
Interest rate futures (1)	18,458	2,529	-	-	-	-
Equity futures (1)	20,998	1,236	-	-	-	-
Interest rate swap agreements (1)	81	6,891	34	(384)	-	-
Credit default swaps (2)	12	196	-	-	-	(44)
Total return swaps (1)	1	105	-	-	-	-
Put options (1)	120	4,293	859	-	-	-
Call options (based on S&P 500) (1)	554	3,520	248	-	-	-
Variance swaps (1)	30	22	20	(11)	-	-
Currency futures (1)	4,855	703	-	-	-	-
Consumer price index swaps (1)	50	44	-	(1)	-	-
Interest rate cap corridors (1)	14	1,700	12	-	-	-
Embedded derivatives:						
Deferred compensation plans (2)	6	-	-	-	-	(300)
Indexed annuity contracts (3)	111,805	-	-	-	-	(457)
GLB embedded derivative reserves (3)	271,661	-	-	-	356	(851)
Reinsurance related embedded derivatives (4)	-	-	-	-	-	(47)
	2	-	20	-	-	-

AFS securities embedded derivatives (1)						
Total derivative instruments not designated and not qualifying as hedging instruments	428,662	21,989	1,193	(396)	356	(1,699)
Total derivative instruments	428,764	$24,139	$1,446	$(454)	$356	$(1,699)

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	As of December 31, 2009					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value		(Liability) Carrying or Fair Value	
			Gain	Loss	Gain	Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	85	$620	$24	$(45)	$-	$-
Foreign currency swaps (1)	13	340	33	(19)	-	-
Total cash flow hedges	98	960	57	(64)	-	-
Fair value hedges:						
Interest rate swap agreements (1)	1	375	54	-	-	-
Equity collars (1)	1	49	135	-	-	-
Total fair value hedges	2	424	189	-	-	-
Total derivative instruments designated and qualifying as hedging instruments	100	1,384	246	(64)	-	-
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	20	1,000	-	-	-	-
Interest rate futures (1)	19,073	2,333	-	-	-	-
Equity futures (1)	21,149	1,147	-	-	-	-
Interest rate swap agreements (1)	81	6,232	63	(349)	-	-
Foreign currency forwards (1)	19	1,016	12	(110)	-	-
Credit default swaps (2)	14	220	-	-	-	(65)
Total return swaps (1)	2	156	-	-	-	-
Put options (1)	114	4,093	934	-	-	-
Call options (based on LNC stock) (1)	1	9	-	-	-	-
Call options (based on S&P 500) (1)	559	3,440	215	-	-	-
Variance swaps (1)	36	26	66	(22)	-	-
Currency futures (1)	3,664	505	-	-	-	-
Embedded derivatives:						
Deferred compensation plans (2)	6	-	-	-	-	(332)
Indexed annuity contracts (3)	108,119	-	-	-	-	(419)
GLB embedded derivative reserves (3)	261,309	-	-	-	308	(984)
Reinsurance related embedded derivatives (4)	-	-	-	-	-	(31)
AFS securities embedded derivatives (1)	2	-	19	-	-	-

Total derivative instruments not designated and not qualifying as hedging instruments	414,168	20,177	1,309	(481)	308	(1,831)
Total derivative instruments	414,268	$21,561	$1,555	$(545)	$308	$(1,831)

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

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

	Remaining Life as of March 31, 2010					
	Less Than 1 Year	1 – 5 Years	5 – 10 Years	10 – 30 Years	Over 30 Years	Total
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements	$-	$73	$243	$270	$-	$586
Foreign currency swaps	-	94	165	81	-	340
Total cash flow hedges	-	167	408	351	-	926
Fair value hedges:						
Interest rate swap agreements	-	800	-	375	-	1,175
Equity collars	49	-	-	-	-	49
Total fair value hedges	49	800	-	375	-	1,224
Total derivative instruments designated and qualifying as hedging instruments	49	967	408	726	-	2,150
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements	650	100	-	-	-	750
Interest rate futures	2,529	-	-	-	-	2,529
Equity futures	1,236	-	-	-	-	1,236
Interest rate swap agreements	395	1,778	1,444	3,274	-	6,891
Credit default swaps	10	40	146	-	-	196
Total return swaps	105	-	-	-	-	105
Put options	-	1,464	2,754	75	-	4,293
Call options (based on S&P 500)	2,689	831		-	-	3,520
Variance swaps	-	2	20	-	-	22
Currency futures	703	-	-	-	-	703
Consumer price index swaps	3	11	12	16	2	44
Interest rate cap corridors	-	-	1,700	-	-	1,700
Total derivative instruments not designated and not qualifying as hedging instruments	8,320	4,226	6,076	3,365	2	21,989
Total derivative instruments with notional amounts	$8,369	$5,193	$6,484	$4,091	$2	$24,139

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

	For the Three Months Ended March 31,	
	2010	2009
Unrealized Gain on Derivative Instruments		
Balance as of beginning-of-year	$11	$127
Other comprehensive income (loss):		
Unrealized holding losses arising during the period:		
Cash flow hedges:		
Interest rate swap agreements	-	3
Foreign currency swaps	15	2
Fair value hedges:		
Interest rate swap agreements	1	(1)
Net investment in foreign subsidiary	-	(74)
Change in DAC, VOBA, DSI, and DFEL	2	7
Income tax benefit	(6)	(4)
Less:		
Reclassification adjustment for gains included in net income:		
Cash flow hedges:		
Interest rate swap agreements (1)	1	1
Foreign currency swaps (1)	1	1
Fair value hedges:		
Interest rate swap agreements (2)	1	1
Income tax expense	(1)	(1)
Balance as of end-of-period	$21	$58

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

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

	For the Three Months Ended March 31,	
	2010	2009
Derivative Instruments Designated and Qualifying as Hedging Instruments		
Cash flow hedges:		
Interest rate swap agreements (1)	$2	$1
Foreign currency swaps (1)	1	1
Total cash flow hedges	3	2
Fair value hedges:		
Interest rate swap agreements (2)	8	4
Equity collars (3)	-	(1)
Total fair value hedges	8	3
Total derivative instruments designated and qualifying as hedging instruments	11	5
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments		
Interest rate futures (3)	35	(328)
Equity futures (3)	(93)	248
Interest rate swap agreements (3)	(19)	(311)
Foreign currency forwards (1)	43	4
Credit default swaps (3)	10	(16)
Total return swaps (4)	4	(9)
Put options (3)	(109)	45
Call options (based on S&P 500) (3)	36	(18)
Variance swaps (3)	(47)	(31)
Currency futures (3)	(15)	-
Consumer price index swaps (3)	(1)	-
Embedded derivatives:		
Deferred compensation plans (4)	(2)	7
Indexed annuity contracts (3)	39	11
GLB embedded derivative reserves (3)	189	178
Reinsurance related embedded derivatives (3)	(16)	76
Total derivative instruments not designated and not qualifying as hedging instruments	54	(144)
Total derivative instruments	$65	$(139)

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

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Derivative Instruments Designated and Qualifying as Cash Flow Hedges

Gains (losses) (in millions) on derivative instruments designated as cash flow hedges were as follows:

	For the Three Months Ended March 31,	
	2010	2009
Ineffective portion recognized in realized loss	$-	$-
Gain recognized as a component of OCI with the offset to:		
Net investment income	3	2

As of March 31, 2010, $4 million of the deferred net gains on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next twelve months. This reclassification would be due primarily to the receipt of interest payments associated with variable rate securities and forecasted purchases, payment of interest on our senior debt, the receipt of interest payments associated with foreign currency securities and the periodic vesting of stock appreciation rights ("SARs").

For the three months ended March 31, 2010, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

Interest Rate Swap Agreements

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

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

As of March 31, 2010, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was January 2040.

Foreign Currency Swaps

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

As of March 31, 2010, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was July 2022.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

We designate and account for interest rate swap agreements and equity collars as fair value hedges, when they have met the requirements of the Derivatives and Hedging Topic of the FASB ASC. Information related to our fair value hedges (in millions) was as follows:

	For the Three Months Ended March 31,	
	2010	2009
Ineffective portion recognized in realized loss	$ 1	$ (1)
Gain recognized as a component of OCI with the offset to interest expense	1	1

Interest Rate Swap Agreements

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

Equity Collars

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

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

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

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Interest Rate Cap Agreements

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

Interest Rate Futures and Equity Futures

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

Interest Rate Swap Agreements

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

Foreign Currency Forwards

We used foreign currency forward contracts to hedge dividends received from our former subsidiary, Lincoln UK. The foreign currency forward contracts obligated us to deliver a specified amount of currency at a future date and a specified exchange rate. The contracts did not qualify for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC. Therefore, all gains or losses on the foreign currency forward contracts were recorded on our Consolidated Statements of Income (Loss) as specified in the above table.

Credit Default Swaps

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

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

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

As of March 31, 2010

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Counter-party	Fair Value (1)	Maximum Potential Payout
6/20/2010	(2)	(4)	A1/A	$ -	$ 10
12/20/2012	(3)	(4)	Aa3/A+	-	10
12/20/2012	(3)	(4)	Aa3/A+	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2016	(3)	(4)	A2/A (5)	(10)	24
12/20/2016	(3)	(4)	A2/A (5)	(8)	24

3/20/2017	(3)	(4)	A2/A (5)		(3	)		22
3/20/2017	(3)	(4)	A2/A (5)		(4	)		18
3/20/2017	(3)	(4)	A2/A (5)		(12	)		17
3/20/2017	(3)	(4)	A2/A (5)		(3	)		17
3/20/2017	(3)	(4)	A2/A (5)		(4	)		23
				$	(44	)	$	195

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As of December 31, 2009

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Counter-party	Fair Value (1)	Maximum Potential Payout
3/20/2010	(2)	(4)	A2/A	$-	$10
6/20/2010	(2)	(4)	A1/A	-	10
12/20/2012	(3)	(4)	Aa3/A+	-	10
12/20/2012	(3)	(4)	Aa3/A+	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2012	(3)	(4)	A1/A	-	10
12/20/2016	(3)	(4)	A2/A (5)	(11)	24
12/20/2016	(3)	(4)	A2/A (5)	(8)	24
3/20/2017	(3)	(4)	A2/A (5)	(3)	23
3/20/2017	(3)	(4)	A2/A (5)	(9)	22
3/20/2017	(3)	(4)	A2/A (5)	(5)	18
3/20/2017	(3)	(4)	A2/A (5)	(13)	18
3/20/2017	(3)	(4)	A2/A (5)	(4)	17
3/20/2017	(3)	(4)	A2/A (5)	(12)	14
				$(65)	$220

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

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

	As of March 31, 2010	As of December 31, 2009
Maximum potential payout	$195	$220
Less:		
Counterparty thresholds	30	30
Maximum collateral potentially required to post	$165	$190

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. In the event that these netting agreements were not in place, fair values of the associated investments, counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash would have

required that we post approximately $34 million as of March 31, 2010.

Total Return Swaps

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

Put Options

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

Call Options (Based on LNC Stock)

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

Call Options (Based on S&P 500)

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

Variance Swaps

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

Currency Futures

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

Consumer Price Index Swaps

We use consumer price index swaps to hedge the liability exposure on certain options in fixed/indexed annuity products. Consumer price index swaps are contracts entered into at no cost and whose payoff is the difference between the consumer price index inflation rate and the fixed rate determined as of inception. The change in market value and periodic cash settlements are recorded on our Consolidated Statements of Income (Loss) as specified in the table above.

Interest Rate Cap Corridors

Interest rate cap corridors involve purchasing an interest rate cap at a specific cap rate and selling an interest rate cap with a higher cap rate. For each corridor, the amount of quarterly payments, if any, is determined by the rate at which the underlying index rate resets above the original capped rate. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the higher capped rate. There is no additional liability to us other than the purchase price associated with the interest rate cap corridor. The purpose of our interest rate cap agreement program is to provide a level of protection from the effect of rising interest rates for our annuity business, within our Retirement Solutions – Annuities and Retirement Solutions – Defined Contribution segments. The interest rate cap agreements provide an economic hedge of the annuity line of business. However, the interest rate cap agreements do not qualify for hedge accounting treatment.

Embedded Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

Deferred Compensation Plans

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

Indexed Annuity Contracts

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

Guaranteed Living Benefit ("GLB") Embedded Derivative Reserves

We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB, 4LATER® and Lincoln Lifetime IncomeSMAdvantage features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. The change in embedded derivative reserves flows through our Consolidated Statements of Income (Loss) as specified in the table above. As of March 31, 2010, we had $25.2 billion of account values that were attributable to variable annuities with a GWB feature and $9.8 billion of account values that were attributable to variable annuities with a GIB feature.

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

Reinsurance Related Embedded Derivatives

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

AFS Securities Embedded Derivatives

We own various debt securities that either contain call options to exchange the debt security for other specified securities of the borrower, usually common stock, or contain call options to receive the return on equity-like indexes. The change in fair value of these embedded derivatives flows through our Consolidated Statements of Income (Loss) as specified in the table above.

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of March 31, 2010, the nonperformance risk adjustment was $6 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of March 31, 2010, the exposure was $294 million. The amounts recognized (in millions) by S&P credit rating of counterparty, for which we had the right to reclaim cash collateral or were obligated to return cash collateral, were as follows:

	As of March 31, 2010		As of December 31, 2009	
S&P Credit Rating of Counterparty	Collateral Posted by Counterparty (Held by LNC)	Collateral Posted by LNC (Held by Counter-party)	Collateral Posted by Counterparty (Held by LNC)	Collateral Posted by LNC (Held by Counter-party)
AAA	$ 3	$ -	$ 3	$ -
AA	120	-	140	-
AA-	265	-	272	(17)
A+	168	(18)	171	(13)
A	303	(205)	331	(240)
	$ 859	$ (223)	$ 917	$ (270)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). The effective tax rate was 27% and 11% for the three months ended March 31, 2010, and 2009, respectively. The effective tax rate on pre-tax income (loss) from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deduction ("DRD"), foreign tax credits and other tax preference items. In addition, during the first quarter of 2009, the effective tax rate was also impacted as a result of the goodwill impairment related to our Retirement Solutions – Annuities reporting segment, which did not have a corresponding tax effect.

Federal income tax benefit for the first three months of 2009 included an increase of $56 million related to favorable adjustments from the 2008 tax return, filed in the first quarter of 2009, relating primarily to the separate account DRD,

foreign tax credits and other tax preference items.

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

8. Guaranteed Benefit Features

Information on the guaranteed death benefit ("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 March 31, 2010	As of December 31, 2009
Return of Net Deposits		
Total account value	$46,638	$44,712
Net amount at risk (1)	1,494	1,888
Average attained age of contract holders	57 years	57 years
Minimum Return		
Total account value	$198	$203
Net amount at risk (1)	58	65
Average attained age of contract holders	70 years	69 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$22,054	$21,431
Net amount at risk (1)	3,437	4,021
Average attained age of contract holders	66 years	65 years

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing March 31, 2010 to December 31, 2009, was attributable primarily to the rise in equity markets and associated increase in the account values.

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

	For the Three Months Ended March 31,	
	2010	2009
Balance as of beginning-of-year	$71	$277
Changes in reserves	13	132
Benefits paid	(24)	(65)
Balance as of end-of-period	$60	$344

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

	As of March 31, 2010	As of December 31, 2009

Asset Type		
Domestic equity	$33,853	$32,489
International equity	12,791	12,379
Bonds	10,617	9,942
Money market	6,679	6,373
Total	$63,940	$61,183
Percent of total variable annuity separate account values	97%	97%

Future contract benefits also include reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 40% of permanent life insurance in force as of March 31, 2010, and approximately 61% of total sales for these products in 2010.

9. Contingencies and Commitments

Contingencies

Regulatory and Litigation Matters

Regulatory bodies, such as state insurance departments, the SEC, Financial Industry Regulatory Authority and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws and laws governing the activities of broker-dealers.

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

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

Commitments

Standby Real Estate Equity Commitments

Historically, we have entered into standby commitments, which obligated us to purchase real estate at a specified cost if a third-party sale does not occur within approximately one year after construction is completed. These commitments were used by a developer to obtain a construction loan from an outside lender on favorable terms. In return for issuing the commitment, we received an annual fee and a percentage of the profit when the property is sold. Our long-term expectation is that we will be obligated to fund a small portion of these commitments that remain outstanding. However, due to the current economic environment, we may experience increased funding obligations.

As of March 31, 2010, and December 31, 2009, we had standby real estate equity commitments totaling $136 million and $220 million, respectively. During the first quarter of 2010, we funded commitments of $59 million and the fair value of the associated real estate of $31 million was included on our Consolidated Balance Sheets. During the first

quarter of 2010, we recorded an $8 million loss in addition to the estimated loss of $69 million recorded in 2009.

We have continued to suspend entering into new standby real estate commitments.

10. Shares and Stockholders' Equity

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

	For the Three Months Ended March 31,	
	2010	2009
Series A Preferred Stock		
Balance as of beginning-of-year	11,497	11,565
Conversion of convertible preferred stock (1)	(132)	-
Balance as of end-of-period	11,365	11,565
Series B Preferred Stock		
Balance as of beginning-of-year	950,000	-
Balance as of end-of-period	950,000	-
Common Stock		
Balance as of beginning-of-year	302,223,281	255,869,859
Conversion of convertible preferred stock (1)	2,112	-
Stock compensation/issued for benefit plans	259,734	196,159
Retirement/cancellation of shares	(18,093)	(19,915)
Balance as of end-of-period	302,467,034	256,046,103
Common stock as of end-of-period:		
Assuming conversion of preferred stock	302,648,874	256,231,143
Diluted basis	312,965,633	258,058,158

(1) Represents the conversion of Series A preferred stock into common stock.

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

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

	For the Three Months Ended March 31,	
	2010	2009
Weighted-average shares, as used in basic calculation	302,221,901	255,558,961
Shares to cover exercise of CPP warrant	13,049,451	-
Shares to cover conversion of preferred stock	183,459	185,040
Shares to cover non-vested stock	603,861	505,610
Average stock options outstanding during the period	780,617	14,853
Assumed acquisition of shares with assumed proceeds from exercising CPP warrant	(5,428,421)	-
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the year)	(515,391)	(11,612)
Shares repurchaseable from measured but unrecognized stock option expense	(162,378)	(2,466)
Average deferred compensation shares (1)	1,355,432	1,538,997
Weighted-average shares, as used in diluted calculation (2)	312,088,531	257,789,383

(1) 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.

(2) As a result of a loss from continuing operations for the first quarter of 2009, shares used in the EPS calculation represent basic shares, since using diluted shares would have been anti-dilutive to the calculation.

In the event the average market price of LNC common stock exceeds the issue price of stock options, such options would be dilutive to our EPS and will be shown in the table above.

Accumulated OCI

The following summarizes the components and changes in accumulated OCI (in millions):

	For the Three Months Ended March 31,	
	2010	2009
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$49	$(2,654)
Cumulative effect from adoption of new accounting standards	181	(84)
Unrealized holding gains (losses) arising during the period	953	(224)
Change in DAC, VOBA, DSI and other contract holder funds	(386)	161
Income tax benefit (expense)	(199)	15
Change in foreign currency exchange rate adjustment	(13)	(17)
Less:		
Reclassification adjustment for losses included in net income	(38)	(186)
Reclassification adjustment for gains (losses) on derivatives included in net income	11	(29)
Associated amortization of DAC, VOBA, DSI and DFEL	4	55
Income tax benefit	8	56
Balance as of end-of-period	$600	$(2,699)
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$(115)	$-
(Increases) attributable to:		
Cumulative effect from adoption of new accounting standards	-	(18)
Portion of OTTI recognized in OCI during the period	(22)	(112)
Change in DAC, VOBA, DSI and DFEL	(2)	23
Income tax benefit	8	31
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	33	-
Change in DAC, VOBA, DSI and DFEL	(7)	-
Income tax expense	(9)	-
Balance as of end-of-period	$(114)	$(76)
Unrealized Gain on Derivative Instruments		
Balance as of beginning-of-year	$11	$127
Unrealized holding gains (losses) arising during the period	8	(94)
Change in DAC, VOBA, DSI and DFEL	2	7
Income tax benefit (expense)	(9)	3
Change in foreign currency exchange rate adjustment	17	4
Less:		
Reclassification adjustment for gains (losses) included in net income	12	(17)
Income tax benefit (expense)	(4)	6
Balance as of end-of-period	$21	$58
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$3	$6
Foreign currency translation adjustment arising during the period	(2)	29
Income tax benefit (expense)	1	(12)
Balance as of end-of-period	$2	$23
Funded Status of Employee Benefit Plans		

Balance as of beginning-of-year	$(210)	$(282)
Adjustment arising during the period	5	2
Income tax expense	(2)	(1)
Balance as of end-of-period	$(207)	$(281)

11. Realized Loss

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

	For the Three Months Ended March 31, 2010	2009
Total realized loss on investments and certain derivative instruments, excluding trading securities (1)	$(44)	$(150)
Gain on certain reinsurance derivative/trading securities (2)	2	22
Indexed annuity net derivative results (3):		
Gross gain	4	1
Associated amortization expense of DAC, VOBA, DSI and DFEL	(2)	-
Guaranteed living benefits (4):		
Gross gain (loss)	39	(94)
Associated amortization expense of DAC, VOBA, DSI and DFEL	(12)	(20)
Guaranteed death benefits (5):		
Gross gain (loss)	(15)	57
Associated amortization benefit (expense) of DAC, VOBA, DSI and DFEL	2	(12)
Total realized loss	$(26)	$(196)

(1) See "Realized Loss Related to Investments" section in Note 5.
(2) Represents changes in the fair value of total return swaps (embedded derivatives) related to various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements. Changes in the fair value of these derivatives are offset by the change in fair value of trading securities in the portfolios that support these arrangements.
(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.
(4) Represents the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments.
(5) Represents the change in the fair value of the derivatives used to hedge our GDB riders.

12. Stock-Based Incentive Compensation Plans

We sponsor various incentive plans for our employees, agents and directors that provide for the issuance of various equity awards including stock options, stock incentive awards ("performance shares"), salary paid in shares of our common stock ("salary shares"), SARs, restricted stock, restricted stock units and deferred stock units. In addition, as required under the Troubled Asset Relief Program Capital Purchase Program ("CPP"), we have complied with enhanced compensation restrictions for certain executives and employees in granting equity compensation to those employees.

LNC stock-based awards granted were as follows:

	For the Three Months Ended March 31, 2010
Awards	
10-year LNC stock options	183,931
Non-employee director stock options	42,921
Non-employee agent stock options	29,183
Restricted stock units	616,808
SARs	119,850
Salary shares	38,923
Director deferred stock units	6,932

13. Fair Value of Financial Instruments

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

	As of March 31, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity	$62,881	$62,881	$60,818	$60,818
VIEs' fixed maturity	579	579	-	-
Equity	310	310	278	278
Trading securities	2,532	2,532	2,505	2,505
Mortgage loans on real estate	7,013	7,270	7,178	7,316
Derivative instruments	992	992	1,010	1,010
Other investments	1,047	1,047	1,057	1,057
Cash and invested cash	3,445	3,445	4,025	4,025
Separate account assets	76,429	76,429	73,500	73,500
Liabilities				
Future contract benefits:				
Indexed annuity contracts	(457)	(457)	(419)	(419)
GLB embedded derivative reserves	(495)	(495)	(676)	(676)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,029)	(1,029)	(940)	(940)
Account value of certain investment contracts	(24,640)	(25,024)	(24,114)	(24,323)
Short-term debt (1)	(101)	(101)	(350)	(349)
Long-term debt	(5,060)	(5,108)	(5,050)	(4,759)
Reinsurance related embedded derivatives	(47)	(47)	(31)	(31)
Variable interest entities' liabilities	(229)	(229)	-	-
Other liabilities:				
Deferred compensation plans	(300)	(300)	(332)	(332)
Credit default swaps	(44)	(44)	(65)	(65)

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

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

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

Mortgage Loans on Real Estate

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

Other Investments

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

Other Contract Holder Funds

Other contract holder funds on our Consolidated Balance Sheets include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of March 31, 2010, and December 31, 2009, the remaining guaranteed interest and similar contracts carrying value approximates fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date.

Short-term and Long-term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2010, or December 31, 2009, and we noted no changes in our valuation methodologies between these periods.

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

	As of March 31, 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$56	$44,929	$ 2,299	$47,284
U.S. Government bonds	165	32	2	199
Foreign government bonds	-	366	90	456
MBS:				
CMOs	-	5,874	31	5,905
MPTS	-	3,151	174	3,325
CMBS	-	1,886	250	2,136
ABS CDOs	-	2	159	161
State and municipal bonds	-	2,198	-	2,198
Hybrid and redeemable preferred stocks	15	1,085	117	1,217
VIEs' fixed maturity AFS securities	-	579	-	579
Equity AFS securities:				
Banking securities	29	147	-	176
Insurance securities	3	-	30	33
Other financial services securities	-	6	27	33
Other securities	32	2	34	68
Trading securities	1	2,456	75	2,532
Derivative investments	-	(289)	1,281	992
Cash and invested cash	-	3,445	-	3,445
Separate account assets	-	76,429	-	76,429
Total assets	$301	$142,298	$ 4,569	$147,168
Liabilities				
Future contract benefits:				
Indexed annuity contracts	$-	$-	$ (457)	$(457)
GLB embedded derivative reserves	-	-	(495)	(495)
Reinsurance related embedded derivatives	-	(47)	-	(47)
Variable interest entities' liabilities	-	-	(229)	(229)
Other liabilities:				
Deferred compensation plans	-	-	(300)	(300)
Credit default swaps	-	-	(44)	(44)

Total liabilities	$-	$(47)	$ (1,525)	$(1,572)

	As of December 31, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$57	$43,234	$ 2,088	$45,379
U.S. Government bonds	158	34	3	195
Foreign government bonds	-	413	92	505
MBS:				
CMOs	-	5,871	35	5,906
MPTS	-	2,965	101	3,066
CMBS	-	1,872	259	2,131
ABS:				
CDOs	-	5	153	158
CLNs	-	-	322	322
State and municipal bonds	-	1,968	-	1,968
Hybrid and redeemable preferred stocks	15	1,035	138	1,188
Equity AFS securities:				
Banking securities	23	124	-	147
Insurance securities	3	-	43	46
Other financial services securities	-	6	22	28
Other securities	34	-	23	57
Trading securities	3	2,411	91	2,505
Derivative investments	-	(358)	1,368	1,010
Cash and invested cash	-	4,025	-	4,025
Separate account assets	-	73,500	-	73,500
Total assets	$293	$137,105	$ 4,738	$142,136
Liabilities				
Future contract benefits:				
Indexed annuity contracts	$-	$-	$ (419)	$(419)
GLB embedded derivative reserves	-	-	(676)	(676)
Reinsurance related embedded derivatives	-	(31)	-	(31)
Other liabilities:				
Deferred compensation plans	-	-	(332)	(332)
Credit default swaps	-	-	(65)	(65)
Total liabilities	$-	$(31)	$ (1,492)	$(1,523)

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

	For the Three Months Ended March 31, 2010					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (1)	Ending Fair Value
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$2,088	$(4)	$(6)	$(61)	$282	$2,299
U.S. Government bonds	3	-	-	(1)	-	2
Foreign government bonds	92	-	-	(3)	1	90
MBS:						
CMOs	35	(1)	1	(2)	(2)	31
MPTS	101	-	1	72	-	174
CMBS	259	-	13	(18)	(4)	250
ABS:						
CDOs	153	-	10	(4)	-	159
CLNs	322	-	278	-	(600)	-
Hybrid and redeemable preferred stocks	138	-	(26)	1	4	117
Equity AFS securities:						
Insurance securities	43	-	-	(13)	-	30
Other financial services securities	22	(3)	8	-	-	27
Other securities	23	-	-	11	-	34
Trading securities	91	1	(16)	(3)	2	75
Derivative investments	1,368	(132)	3	42	-	1,281
Future contract benefits:						
Indexed annuity contracts	(419)	(39)	-	1	-	(457)
GLB embedded derivative reserves	(676)	230	-	(49)	-	(495)
Variable interest entities' liabilities	-	(4)	-	-	(225)	(229)
Other liabilities:						
Deferred compensation plans	(332)	(2)	-	34	-	(300)
Credit default swaps	(65)	10	-	11	-	(44)
Total, net	$3,246	$56	$266	$18	$(542)	$3,044

	For the Three Months Ended March 31, 2009					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI	Sales, Issuances, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (1)	Ending Fair Value
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$2,357	$(17)	$(40)	$81	$(279)	$2,102
U.S. Government bonds	3	-	-	-	-	3
Foreign government bonds	60	-	(1)	(1)	-	58
MBS:						
CMOs	161	(3)	(4)	-	(21)	133
MPTS	18	-	-	-	(10)	8
CMBS	244	-	4	(2)	-	246
ABS:						
CDOs	151	1	(39)	(1)	-	112
CLNs	50	-	32	-	-	82
State and municipal bonds	125	-	-	-	-	125
Hybrid and redeemable preferred stocks	97	-	(16)	3	5	89
Equity AFS securities:						
Insurance securities	51	-	(4)	-	-	47
Other financial services securities	20	(3)	(3)	(3)	-	11
Other securities	23	3	(2)	(1)	-	23
Trading securities	81	(4)	-	-	1	78
Derivative investments	2,148	24	-	(27)	-	2,145
Future contract benefits:						
Indexed annuity contracts	(252)	11	-	(12)	-	(253)
GLB embedded derivative reserves	(2,904)	336	-	(37)	-	(2,605)
Other liabilities:						
Deferred compensation plans	(336)	7	-	-	-	(329)
Credit default swaps	(51)	(16)	-	-	-	(67)
Total, net	$2,046	$339	$(73)	$-	$(304)	$2,008

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

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

	For the Three Months Ended March 31, 2010				
	(Amortization) Accretion, Net	OTTI	Gains (Losses) from Sales, Maturities, Settlements, Calls	Unrealized Holding Gains (Losses) (1)	Total
Investments:					
Fixed maturity AFS securities:					
Corporate bonds	$-	$(18)	$14	$-	$(4)
MBS:					
CMOs	-				