LINCOLN NATIONAL CORP
Form 10-Q
August 07, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009
OR

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

For the transition period from to

Commission File Number 1-6028

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

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

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

Not Applicable

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

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

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

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

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

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

As of August 3, 2009, there were 302,093,890 shares of the registrant's common stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

See accompanying Notes to Consolidated Financial Statements

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

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

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

See accompanying Notes to Consolidated Financial Statements

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

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

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

See accompanying Notes to Consolidated Financial Statements

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

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

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

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

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

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

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

2. New Accounting Standards

Adoption of New Accounting Standards

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

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(revised 2007), "Business Combinations" ("SFAS 141(R)"), which is a revision of SFAS No. 141 "Business Combinations" ("SFAS 141"). SFAS 141(R) retains the fundamental requirements of SFAS 141, but establishes principles and requirements for the acquirer in a business combination to recognize and measure the identifiable assets acquired, liabilities assumed and any noncontrolling interests in the acquiree and the goodwill

acquired or the gain from a bargain purchase. For a more detailed description of SFAS 141(R), see Note 2 of our 2008 Form 10-K. We adopted SFAS 141(R) for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

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

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin ("ARB") No. 51" ("SFAS 160"), which establishes accounting and reporting standards surrounding noncontrolling interests, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. For a more detailed description of SFAS 160, see Note 2 of our 2008 Form 10-K. We adopted SFAS 160 effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition and results of operations.

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

In February 2008, the FASB issued FSP No. FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" ("FSP 140-3"), regarding the criteria for a repurchase financing to be considered a linked transaction under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125." For a more detailed description of FSP 140-3, see Note 2 of our 2008 Form 10-K. We adopted FSP 140-3 effective January 1, 2009, and applied the guidance prospectively to initial transfers and repurchase financings executed after that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

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

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-2 delayed the effective date of SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

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

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS 161"), which amends and expands the qualitative and quantitative

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

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

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

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

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60" ("SFAS 163"), which applies to financial guarantee insurance and reinsurance contracts not accounted for as derivative instruments, and issued by entities within the scope of SFAS No. 60, "Accounting and Reporting by Insurance Enterprises." For a more detailed description of SFAS 163, see Note 2 of our 2008 Form 10-K. We do not hold a significant amount of financial guarantee insurance and reinsurance contracts, and as such, the adoption of SFAS 163 on January 1, 2009 did not have a material impact on our consolidated financial condition and results of operations.

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

In June 2008, the FASB issued Emerging Issues Task Force ("EITF") No. 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides a two-step process to determine whether an equity-linked instrument (or embedded feature) is indexed to an entity's own stock first by evaluating the instrument's contingent exercise provisions, if any, and second, by evaluating the instrument's settlement provisions. We adopted EITF 07-5 on January 1, 2009, for all outstanding instruments as of that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SFAS No. 165 – Subsequent Events

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

Future Adoption of New Accounting Standards

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

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

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

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("SFAS 166"), which, among other things, eliminates the concept of a qualifying special-purpose entity and removes the scope exception for a qualifying special-purposes entity ("SPE") from the consolidation guidance in FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46(R)") As a result, previously unconsolidated qualifying SPEs must be re-evaluated for consolidation by the sponsor or transferor. In addition, SFAS 166 amends the accounting guidance related to transfers of financial assets in order to address practice issues that have been highlighted by the events of the recent economic decline. SFAS 166 is effective as of the beginning of

the annual reporting period that begins after November 15, 2009. The recognition and measurement provisions of SFAS 166 will be applied to transfers that occur on or after the effective date, and all qualifying SPEs that exist on an after the effective date must be evaluated for consolidation. We will adopt the provisions of SFAS 166 effective January 1, 2010 and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

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

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

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

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

3. Acquisitions and Dispositions

Acquisitions

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

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

Dispositions

Discontinued U.K. Operations

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

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

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

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

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

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

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

Discontinued Media Operations

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

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

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

4. Variable Interest Entities

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

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

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

Affiliated Trust

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

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

Credit-Linked Notes

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

5. Investments

AFS Securities

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

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

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

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

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

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

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

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

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

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

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

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

When evaluating MBS and mortgage related ABS we consider a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other than temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance in the prior periods. We use this information about the collateral to forecast the timing and rate of mortgage loan defaults including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alt-A, or subprime), geographic distribution of underlying loans, and timing of liquidations by state. Once default rates and timing assumptions are determined, we then make assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future

home price appreciation/depreciation, loan size, first lien vs. second lien, existence of loan level private mortgage insurance, type of occupancy, and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on our tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for other-than-temporary impairment. To the extent that the security has already been impaired or was purchased at a discount greater than the expected principal loss, no impairment is required.

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

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

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

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

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

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

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

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

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

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

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